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SACO-LOWELL SHOPS

ANNUAL REPORT
AND
CERTIFIED CONSOLIDATED STATEMENT

DECEMBER 31, 1931

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SACO-LOWELL SHOPS

March 14, 1932.

TO THE STOCKHOLDERS:

For the year ended December 31, 1931, your company showed a loss, after all charges, of $485,951.48. In arriving at this figure, the following charges were made against income:

For interest charges	$259,888.32
For depreciation	291,251.41
For carrying charges on plants rendered idle by consolidation	56,422.52
TOTAL	$607,562.25

The total of these charges exceeds the loss for the year by $121,610.77, which was the amount earned before charging income with interest, depreciation, and idle plant expense.

The sales volume for the year was only 31% of full capacity. In fact, both the physical and dollar volume of sales were the lowest since 1914.

The reasons for this violent contraction of sales are well known. The effects of the unprecedented depression in general business were greatly intensified in the cotton textile industry by the ruinous and headlong decline in the price of cotton, which was quickly reflected in the price of cotton products. Consequently, most mills, in addition to operating losses, suffered heavy and unexpected losses on their inventories for the second time in two years, with the result that they have been forced to limit their expenditures to current operating needs and to postpone, for the time being, their plans for replacing machinery. The effect has been to paralyze, to a large extent, the buying of new equipment. Even repair parts sales, ordinarily the most stable part of the company's volume, have been greatly reduced.

This brutal hammering down of our sales volume to pre-war levels has made it absolutely necessary to devise and enforce the most drastic operating economies, and to consolidate still further the company's manufacturing operations in order to realize the fullest measure of economy. In December, after thorough consideration of the plans and recommendations submitted by the management, the Directors voted unanimously to consolidate the operations of the plant in Newton Upper Falls into Biddeford and Saco, Maine.

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(Continued after Balance Sheet)

SACO-LOWELL SHOPS

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1931

ASSETS

CURRENT ASSETS:		
Cash and cash items:		
Cash	$1,159,617.64	
Certificates of deposit	370,000.00	
Bankers' acceptances, less unearned discount	388,660.34	
Short-term municipal notes—At par	110,000.00	$2,028,277.98
Notes and accounts receivable	$1,228,493.87	
Less reserve for bad debts	89,578.41	1,138,915.46
Inventories, at lower of cost or market		839,099.18
Stocks and bonds of other companies—At cost	$ 790,432.32	
Less reserve to reduce to estimated realizable value	545,000.00	245,432.32
Deposits with factory mutual fire insurance companies		50,049.30
Accrued interest receivable		6,712.53
TOTAL CURRENT ASSETS (including notes and accounts, due after December 31, 1932, $198,504.46)		$4,308,486.77
†REAL ESTATE, MACHINERY AND EQUIPMENT—Depreciated Value		4,484,981.56
DEFERRED CHARGES—Insurance, Taxes, Etc.		39,226.53
TOTAL		$8,832,694.86

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†Under a consolidation plan authorized by the board of directors in 1931, the operations of the plant at Newton, Massachusetts, will be transferred to Saco, Maine, and consolidated with the operations of the plant at Biddeford, Maine, in 1932. Based upon an outside appraisal made in 1929 and allowing for difference in reproduction costs since that date, the relative depreciated value of the active plants after the consolidation plus estimated realizable values for the idle plants at Newton and Lowell, Massachusetts, would be substantially in excess of the net book value of capital assets at December 31, 1931.

‡The 7% Convertible notes are subordinated as to principal, but not as to interest, to Class A notes.

*The Class B notes are subordinated as to principal to Class A and to Convertible notes; in addition to the 5% interest, which is not subordinated, these notes bear 2% interest which is subordinated and which is not payable until maturity or payment of the notes.

SACO-LOWELL SHOPS

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1931

LIABILITIES

Current Liabilities:			
Accounts payable			$ 101,131.58
Accrued interest on funded debt (current)			51,541.45
Accrued commissions, wages, royalties, taxes, etc.			50,277.09
TOTAL CURRENT LIABILITIES			$ 202,950.12
Funded Debt:			
6% Class A notes, due January 14, 1933		$2,730,000.00	
‡7% Convertible gold notes, due January 15, 1933		477,690.00	
*5% Class B notes, due January 15, 1935		895,000.00	4,102,690.00
*Accrued Interest On Class B Notes, Payable January 15, 1935			88,754.16
Reserve for Sundry Contingencies			128,788.85
Capital Stock:			
Preferred, 6% cumulative—12,500 shares (dividends accumulated, $487,500.00)		$1,250,000.00	
Second preferred, 7% cumulative—26,438 shares (dividends accumulated, $1,249,195.50)		2,643,800.00	
Balance represented by 66,127 shares of common stock without par value:			
Balance before income deficit for 1931 (including 1,300 shares issued in 1931, $13,000.00)	$901,663.21		
Income deficit for 1931 (not including adjustments to reserve for contingencies applicable to prior years)	485,951.48	415,711.73	4,309,511.73
Total			$8,832,694.86

CERTIFICATE

Saco-Lowell Shops:

We have examined your accounts and the accounts of your subsidiary, Pawtucket Spinning Ring Company, for the purpose of verifying the stated financial condition at December 31, 1931. Customers were not requested to confirm their balances of notes and accounts receivable and the physical inventories were not audited as to quantities. In our opinion the above condensed consolidated balance sheet sets forth the financial condition of your companies at that date.

February 27, 1932.
Boston, Massachusetts.

HASKINS & SELLS,
Public Accountants.

The company has leased for ten years, with an option to purchase, several large buildings of the York Manufacturing Company's plant in Saco, which are adjacent to its present plant in Biddeford and separated from it only by a channel of the Saco River, which can be bridged easily at this point. These buildings, which are in excellent condition and suitable for the company's needs, contain about the same floor area as the buildings in Newton Upper Falls, exclusive of the foundry. Improvement and simplification in the design of the company's product, changes in mill practice, and the growing substitution of steel for cast iron, are steadily lessening the need for castings and foundry capacity. For a moderate expenditure, the big and well-equipped foundry in Biddeford can be easily expanded to provide ample capacity for the consolidated shops' requirements of castings.

The Biddeford plant is much larger than the plant in Newton Upper Falls. The consolidation of the smaller plant with the larger one and the concentration of equipment and personnel into one location, particularly into one foundry, will greatly increase the efficiency and economy of manufacturing and result in large and permanent operating savings. Nor will the productive capacity of the company be lessened by the consolidation. On the contrary, its ability to serve the industry will be strengthened. The consolidation has been carefully planned and is being executed rapidly and in an orderly manner. There will be no interference with current business.

In connection with this final consolidation of the company's operations into one location, it is pertinent to review briefly the extent to which the plant capacity for manufacturing preparatory and spinning machinery of the kind made by this company has been liquidated and consolidated in recent years. In 1920 there were nine well-known establishments, each of which had started as an independent company, actively engaged in the production of the kinds of cotton mill machinery which this company makes. Today there are only three plants left. Liquidation and consolidation, made imperative by continued operating losses, have removed the other six. Moreover, except for the additional space acquired by this company in connection with its present consolidation program, as already explained, the other consolidations have been accomplished without any appreciable increase in the floor area of the plants remaining in the field. The mortality in the cotton textile industry during the last decade has been great, but the mortality in the business of making preparatory and spinning machinery, which is wholly dependent on the cotton textile industry which it serves, has been greater still.

Cotton spindles in place in the United States reached their peak in July of 1925, when they totaled nearly 38,000,000. Today this peak figure has been reduced to about 32,000,000, a reduction of approximately 6,000,000 spindles, or nearly 16%. Of the peak spindleage, therefore, about 84% still remains in place. And now we come to a very significant and striking fact in connection with this situation. Even under the abnormal and depressed conditions which prevailed during the past year, the demand for cotton products was large enough to keep the spindleage in place operating at more than 80% of single-shift capacity, calculated in terms of spindle hours by the United States Census Bureau. In 1929 the corresponding figure was about 105% of single-shift capacity with a somewhat larger number of spindles in place.

This statement is important and noteworthy in its bearing on the future of the company's business. More than half the spindleage in place today is obsolete in design and much of it is largely worn out and in urgent need of replacement. With even a moderate improvement in general business, it would seem that the industry would require permanent plant capacity of from 25,000,000 to 30,000,000 spindles in place to supply the demand for cotton products, which up to 1929 was slowly but steadily increasing. Under normal conditions the proper maintenance and replacement of a machinery capacity of even 25,000,00 spindles (which is 7,000,000 spindles less than the number now in place, and a reduction of one-third from the peak spindleage of 1925) would provide a sufficient and sustained volume of business to the three companies remaining in our field.

Hundreds of mills today are feeling acutely their need for new and better machinery. The normal replacement buying has been held back and suppressed for seven years or more. Many of our customers tell us they are thoroughly convinced of their urgent need for new machinery and intend to buy it soon. Nevertheless, it is clear that there can be no revival of new equipment buying in substantial volume until at least a considerable number of the cotton mills of the country recover some moderate earning power. At present there is no sound basis on which to predict when that recovery of earning power will be realized. Meanwhile the buying of new machinery will continue to be in very limited volume.

In spite of the catastrophic conditions prevailing in our industry, the company closed the year with a very strong balance of cash and cash items, amounting to $2,028,277.98. The receivables ($1,138,915.46) and the inventory, $839,099.18) reflect the abnormally low volume of business. Close control of the items in these two accounts, making them quickly responsive to the decline in sales volume, coupled with drastic economies with respect to all operating expenditures, have enabled the company to build up its strong cash position. Further substantial economies in operating expenditures will begin to be realized during the latter part of the current year after the consolidation, now in progress, is completed, and the full advantage of it is felt in the company's operations.

A balance sheet showing the condition of the company as of December 31st last, audited by Haskins & Sells, is included with this report.

By Order of the Board of Directors,

DAVID F. EDWARDS,
President.

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SACO-LOWELL SHOPS

ANNUAL REPORT
AND
CERTIFIED CONSOLIDATED STATEMENT
AND
PLAN FOR ADJUSTMENT OF INDEBTEDNESS

DECEMBER 31, 1932

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SACO-LOWELL SHOPS
AND SUBSIDIARIES

TO THE STOCKHOLDERS:

The loss for the year ended December 31, 1932, was as follows:

Loss after all charges		$761,001.82
Depreciation	254,178.65	
Interest	249,685.09	
Abandoned plant expense	52,458.73	556,322.47
Loss before depreciation, interest and abandoned plant expense		$204,679.35

It is significant that depreciation, interest, and abandoned plant expense make up nearly three-quarters of the total loss.

With respect to interest charges, payable currently in cash, the effect of the Plan for Adjustment of Indebtedness, a copy of which is annexed hereto, is to reduce them annually by about $145,000. As an offset to any such saving, however, is the fact that in 1933 the company will not receive the same income which it received in 1932 from the investment of excess funds because these excess funds have been applied to reduce the company's funded debt maturing on January 14th last. Notwithstanding this offset, though, the effect of carrying through the Plan will be to save the company well over $100,000. per year in interest charges currently payable in cash. The details of the reduction, adjustment, and extension of the company's note indebtedness are set forth in the annexed Plan. In connection therewith, the cooperation of the holders of all Class B Notes and of about 87% of the Convertible Notes, with respect to subordinating the interest as well as the principal of their holdings, has been particularly helpful.

Abandoned plant expense of $52,458.73 (a non-operating item) is made up of the carrying charges on the plants of the company located in Lowell and Newton Upper Falls, Massachusetts, which have been rendered idle by consolidation of the company's operations into the plants located in Biddeford and Saco, Maine, which plants constitute one integrated group. The abandoned plants aggregated originally about 1,650,000 square feet of floor space and approximately 39 acres of land. Old buildings comprising approximately 660,000 square feet of floor space have been demolished in Lowell in order to save taxes and reduce other carrying charges. Notwithstanding the fact that during the past year the amount of the company's abandoned factory floor space has been increased by approximately 47%, as a result of the abandonment of the large plant in Newton Upper Falls, the amount of the

(Continued after Balance Sheet)

SACO-LOWELL SHOPS

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
December 31, 1932

ASSETS

CURRENT ASSETS:		
Cash,		$532,361.31
Notes and accounts receivable,	$913,958.37	
Less reserve for bad debts,	76,116.21	837,842.16
Inventories, at lower of cost or market,		695,381.13
Total current assets (including notes and accounts due after December 31, 1933, approximately $350,000.00),		$2,065,584.60
MISCELLANEOUS ASSETS:		
Stocks and bonds of other companies—At cost,	$789,360.62	
Less reserve to reduce to estimated realizable value,	625,000.00	
Estimated realizable value of stocks and bonds,	$164,360.62	
Deposits with factory mutual fire insurance companies,	47,833.30	212,193.92
*REAL ESTATE, MACHINERY AND EQUIPMENT—DEPRECIATED VALUE (including cost of acquiring and improving real estate at Saco, Maine, $333,697.95, held under lease subject to payment of Ten Year loan payable—See contra),		4,533,725.62
PREPAID INSURANCE, TAXES, ETC.,		28,371.09
TOTAL,		$6,839,875.23

*Based upon an outside appraisal made in 1929 and allowing for difference in reproduction costs since that date, the relative depreciated value of active plants owned, plus estimated realizable values for the idle plants at Newton and Lowell, Massachusetts, would be substantially in excess of the net book value carried for these assets at December 31, 1932.

†This loan is subordinated as to principal and interest to Class A Notes.

‡At December 31, 1932, the 7% Convertible Notes were subordinated as to principal, but not as to interest, to Class A Notes; the Class B Notes were subordinated as to principal to Class A and to Convertible Notes; the 5% interest on Class B Notes was not subordinated; and the 2% interest on Class B Notes, which was not payable until maturity or payment of the notes, was subordinated to all other payments under the notes.

‡Under the provisions of a Trust Indenture dated January 14, 1933, when consummated, the funded indebtedness is revised and extended to January, 1936, and certain changes are made in respect of dates of maturity of interest payments and of relative subordinations.

SACO-LOWELL SHOPS

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1932

LIABILITIES

Current Liabilities:		
Accounts payable and accruals,		$90,355.32
Accrued interest (current),		42,612.22
Amount due January 1, 1933, on Ten Year loan payable,		37,500.00
Total current liabilities,		$170,467.54
†Ten Year 6% Loan Payable (balance payable after 1933, in equal instalments due January 1, 1934 to January 1, 1942, inclusive—See contra),		312,500.00
‡Funded Debt (extended and revised per footnote below):		
6% Class A notes, due January 14, 1933,	$1,274,000.00	
7% Convertible gold notes, due January 15, 1933,	477,690.00	
5% Class B notes, due January 15, 1935,	895,000.00	
Accrued interest at 2% on Class B notes, due January 15, 1935,	106,654.16	2,753,344.16
Reserve for Sundry Contingencies,		53,881.62
Shareholders' Equity:		
Preferred capital stock, 6% cumulative, 12,500 shares (dividends accumulated, $562,500.00),	$1,250,000.00	
Second preferred capital stock, 7% cumulative, 26,438 shares (dividends accumulated, $1,434,261.50),	2,643,800.00	
Common capital stock, 67,299 shares without par value (including 1,172 shares issued in 1932, $1,172.00)—Balance before deducting income deficit for 1932,	416,883.73	
Total shareholders' equity before deducting income deficit for 1932,	$4,310,683.73	
Less—Income deficit for 1932 (not including adjustments to reserve for contingencies applicable to prior years),	761,001.82	3,549,681.91
Total,		$6,839,875.23

CERTIFICATE

Saco-Lowell Shops:

We have examined your accounts and the accounts of your subsidiaries for the purpose of verifying the stated financial condition at December 31, 1932. Customers were not requested to confirm their balances of notes and accounts receivable and the physical inventories were not audited as to quantities. In our opinion the above condensed consolidated balance sheet sets forth the financial condition of your companies at that date.

Boston, Massachusetts.
March 9, 1933.

HASKINS & SELLS,
Public Accountants.

abandoned plant expense is about $4,000. less than in the previous year and is approximately $39,000. less than in the year 1929. This non-operating item is still burdensome, but has been greatly reduced from its original amount and is of minor importance as compared with the great advantages and economies realized from consolidation.

The decision to abandon the plant in Newton Upper Falls was announced and explained in the annual report of last year. During the past year this consolidation program was carried through with entire success and the results expected from it have been fully realized. Had this consolidation not been made, the operating results for last year would have been much more disappointing than they are. The work of consolidating was completed in June of last year and the full economies from it were realized only during the latter half of the year covered by this report.

The annual report of last year contained the statement that the volume of sales in 1931 was the lowest, both in physical and dollar volume, since 1914. At the time this statement was made, it did not seem possible that a further heavy shrinkage in sales volume could occur. However, that is exactly what has happened. Our sales volume in 1932 was only about 54%, or a little more than one-half, of that in 1931, and yet the company was able to secure its share of such orders as were placed for the products that it makes. This volume meant that the company operated at less than 20% of capacity, a condition that rendered heavy losses unavoidable in spite of consolidation and the most drastic retrenchment with respect to all operating expenditures. Co-incident with this further violent decline in volume, there has also been an inevitable lowering of the level of prices for our products which has still further aggravated the situation and accentuated the operating losses.

In view of the chaotic and catastrophic conditions existing today, it would be futile and foolish to attempt to define the outlook and predict results for the current year. At present the mills, with few exceptions, are buying practically no new machinery. Their purchases are limited largely to what they must have to keep their active machinery running. Repair parts are bought from hand to mouth and in quantities barely sufficient to meet the day-to-day needs and prevent break-downs in operating schedules. Under the conditions now prevailing, which have largely stopped forward-looking action for the future, the machinery builder gets only that negligible part of the mill's dollar which is left after all other acute current needs for working capital have been met. The steel industry, machine tool business, and in fact practically all companies making equipment the purchase price of which would be classified as capital expenditure, find their markets paralyzed for the time being and unresponsive to selling effort.

But these conditions, incredibly bad as they are, can change quickly if sustained constructive developments should occur. During the late Spring and early Summer of last year many mills were virtually shut down and most of the others were running on greatly reduced schedules. The buying of products, made by the machinery builders, was virtually non-existent as it is today. About mid-summer, however, the price of cotton began to advance. The demand for cotton textiles showed marked improvement and soon the volume of inquiry regarding new machinery and orders for repair parts swelled from a trickle to a steady stream. This spurt was short-lived because the price of cotton quickly slumped again and sagged down to its previous low levels. The response of our market to this temporary improvement, however, showed clearly and convincingly the strength of the pent-up demand and the acute need for new and better machinery and repair parts.

When this demand will be released and translated into orders through sustained, moderate improvement, no one can foresee, but that it exists no one who is well informed as to the true conditions in the industry can deny. Meanwhile your company has reduced its expenses to the minimum and enforced the most rigid economy consistent with maintaining the integrity of its organization and the efficiency of its operations. Unless the virtual cessation of the equipment business, caused by the economic crisis now prevailing, is continued for a further period so long as to impose an unbearable strain upon the country's industrial structure and wreck a considerable part of it, your company should be able to carry on to better times and take full advantage of the big volume of buying which must ultimately be released through recovery in the great cotton textile industry. Many well informed observers believe that the cotton textile industry will be one of the first to recover and re-gain some measure of earning power.

The Class A Notes of the company (principally held by banks) which matured January 14, 1933, were paid down during the year 1932 from $2,730,000. to $1,274,000; and the Plan for adjustment of Indebtedness provides for the extension of this balance, together with all other notes of the company, for three years from January 14th last. Despite the large payment of $1,456,000. on the maturing note indebtedness, the company closed the year with a cash balance of $532,000. and can borrow another $200,000. when and if needed, as provided in the Plan for Adjustment of Indebtedness, appended hereto.

A balance sheet showing the condition of the company as of December 31st last, audited by Haskins & Sells, is included with this report.

By Order of the Board of Directors,

D. F. Edwards.
President.

See following pages for Plan for Adjustment of Indebtedness.

SACO-LOWELL SHOPS

PLAN FOR ADJUSTMENT OF INDEBTEDNESS

DECEMBER 8, 1932

AS APPROVED BY THE BOARD OF DIRECTORS, JANUARY 11, 1933,
AND AS DULY DECLARED EFFECTIVE ON JANUARY 14, 1933.

PURPOSE OF PLAN

In January, 1933, there will fall due the Company's 6% Class A Notes and the Company's 7% Convertible Notes (now outstanding, respectively, in principal amounts of $2,184,000 and $477,690). The purpose of the within Plan is to postpone the maturities of these obligations on the terms and conditions hereinafter set forth.

EFFECTIVE DATE OF PLAN

The Plan will not become effective until the following security-holders shall have accepted the same and deposited or agreed to deposit their Notes for exchange as herein provided with Old Colony Trust Company, Clearing Agent: 100% of the Class A Notes outstanding after the redemption hereinafter referred to; 100% of the Class B Notes outstanding on January 15, 1933; substantially all of the Convertible Notes outstanding on said date; and until declared effective by the President of the Company pursuant to authorization by the Board of Directors.

EXISTING NOTE INDEBTEDNESS OF THE COMPANY AS OF DATE OF PLAN

(*a*) THE CLASS A NOTES. $2,184,000 (of an authorized issue of $3,412,500) Three-Year Six Per Centum Class A Notes, due January 14, 1933. The balance of the authorized issue has, since January 14, 1930, been redeemed prior to its maturity and cancelled.

(*b*) CREDIT LINE NOTES. The Company was authorized, in order to raise additional working capital for current operating needs, to issue from time to time not exceeding $470,000 principal amount of these Notes, bearing interest at 6% per annum, maturing at or prior to January 14, 1933, and ranking on an equality with the Class A Notes. No said Credit Line Notes have been issued to date or will hereafter be issued.

(*c*) THE CONVERTIBLE NOTES. $477,690 (of an authorized issue of $478,120) Three-Year Seven Per Centum Convertible Notes, due January 15, 1933. The balance of the authorized issue was never issued.

These Notes are now convertible into common stock on the basis of $10 a share, and are, as to the payment of principal, subordinated to the payment of principal of and interest on the Class A Notes and the Credit Line Notes.

(*d*) THE CLASS B NOTES. $895,000 (total authorized issue) Five-Year Five Per Centum Class B Notes, due January 15, 1935.

These Notes, as to the payment of principal and as to the payment of 2% interest in excess of 5% per annum, are subordinated to the payment of principal of and interest on the Class A Notes, the Credit Line Notes, and the Convertible Notes. Since January 15, 1927, there has accrued upon these Notes, and upon similar notes for which these Notes were exchanged, additional interest at the rate of 2% per annum, which interest by the terms of said Notes is similarly subordinated and is payable only when the principal of said Notes is payable.

PROPOSED ADJUSTMENT OF EXISTING NOTE INDEBTEDNESS OF THE COMPANY

(*a*) THE CLASS A NOTES. On or before maturity, the Company will redeem and pay a further $910,000 principal amount of the Class A Notes. The balance of said Notes thereafter outstanding (*i.e.*, $1,274,000) will be exchanged on January 14, 1933, for Class A Notes, dated January 14, 1933, maturing January 14, 1936, and bearing interest to said maturity or prior payment at the rate of 5% per annum.

The Class A Notes to be outstanding after January 14, 1933, may be redeemed at par, in whole or in part, prior to maturity, but any redemption prior to maturity of less than all said Class A Notes shall be made in ratable proportion to the principal amounts of the said Notes at the time held by the several holders.

(*b*) WORKING CAPITAL NOTES. In lieu of said Credit Line Notes, the Company will be authorized from time to time to issue not exceeding $800,000 principal amount of Working Capital Notes, which shall mature not later than January 14, 1936, shall bear such rate of interest and have such security as may be agreed upon, and shall otherwise rank on an equality with the Class A Notes. The Company has a definite commitment from certain banks to take, at any time upon the Company's request, $200,000 principal amount of Working Capital Notes and has further conditionally arranged with said banks for lines of credit aggregating $600,000 (to be used only in the event of increased business requiring additional working capital for current operating needs), advances against which shall be evidenced by Working Capital Notes.

Reference below in the Plan to Class A Notes includes reference to any Working Capital Notes which may be outstanding.

(*c*) THE CONVERTIBLE NOTES. On January 16 (as of Sunday, January 15), 1933, not exceeding 15% in principal amount of said Notes then outstanding will be exchanged for Class C Convertible Notes below described, and the balance of said Notes then outstanding not so exchanged will on said date be exchanged for Class D Convertible Notes below described.

The aforesaid Class C and Class D Convertible Notes will be dated January 15, 1933, will mature January 15, 1936, and will be convertible into common stock on a basis similar to that now existing with respect to the Convertible Notes now outstanding.

The aforesaid Class C Convertible Notes, as to the payment of principal only, will be subordinated to the payment of principal of and interest on the Class A Notes to be outstanding after January 14, 1933. The aforesaid Class D Convertible Notes, as to the payment of principal and as to the payment of interest at the rate of 7% per annum, will be subordinated to the payment of principal of and interest on said Class A Notes.

(*d*) THE CLASS B NOTES. On January 16 (as of Sunday, January 15), 1933, this entire issue will be exchanged for Class B Notes, dated January 15, 1933, and maturing January 15, 1936.

The Class B Notes so to be issued in exchange: (*a*) as to the payment of principal and as to the payment of interest at the rate of 7% per annum, will be subordinated to the payment of principal of and interest on the Class A Notes to be outstanding after January 14, 1933, and (*b*) as to the payment of principal and as to the payment of 2% interest in excess of 5% per annum, will be subordinated to the payment of principal of and interest on the aforesaid Class C and Class D Convertible Notes.

The payment of the interest accrued, at the rate of 2% per annum, from January 15, 1927, to January 15, 1933, upon the Class B Notes now outstanding, and upon similar notes for which said Notes were exchanged, will be subordinated to the payment of principal of and interest on the Class A Notes to be outstanding after January 14, 1933, and to the payment of principal of and interest on the aforesaid Class C and Class D Convertible Notes.

NOTE: Interest accruals on Class D Convertible Notes and Class B Notes shall bear interest (the payment of which shall be deferred and subordinated) at the rate of 5% per annum.

MISCELLANEOUS

1. The Class A Notes, Convertible Notes, and Class B Notes now outstanding were issued under a Trust Indenture, dated January 14, 1930. The Class A Notes, Class C and D Convertible Notes, and Class B Notes to be exchanged therefor under the Plan, and the Working Capital Notes provided for in the Plan will be issued under a substantially similar Trust Indenture, which will contain appropriate provisions to carry the Plan into effect. This Trust Indenture will also provide that so long as any of the Class A Notes so to be issued in exchange remain outstanding and unpaid:

(*a*) Except for the purpose of securing Working Capital Notes, no lien of any kind shall be placed on any assets of the Company.

(*b*) If the Company declares or pays any dividend upon its shares of stock of any class, forthwith there shall become due and payable the entire principal amount of said Class A Notes then outstanding.

(*c*) If the amount by which the aggregate of the Company's cash, accounts and notes receivable, and inventory exceeds the Company's current liabilities, as shown by any monthly statement of the Company, shall be no greater than the total principal amount of Class A Notes then outstanding, and if within twenty-five days next following the last day of any month with respect to which such statement is rendered there shall not have been filed with the Trustee the writing hereinafter referred to, then at the expiration of said twenty-fifth day a default shall occur and the Class A Notes then outstanding shall forthwith become due and payable; *provided, however,* that if there shall be filed with the Trustee by the holders of at least 75% in principal amount of Class A Notes then outstanding a writing, in such form as the Trust Indenture may provide, such default shall be postponed, and such default shall thereafter occur six months from the twenty-fifth day aforesaid, if the amount by which the aggregate of the Company's cash, accounts and notes receivable, and inventory exceeds the Company's current liabilities, as shown by the monthly statement rendered with respect to the sixth month following the month first above referred to, shall be no greater than the total principal amount of Class A Notes then outstanding, and *provided further* that during any such period of six months following the filing of such writing no default under this provision shall be deemed to have occurred with respect to any intervening monthly statement.

(*d*) The Company will, within sixty days of the end of its fiscal year, redeem and pay a principal amount of said Class A Notes then outstanding equivalent to 50% of its net profits for the prior fiscal year as shown in its annual audited statement for said prior fiscal year.

2. In connection with the consolidation of its manufacturing operations at Biddeford and Saco, Maine, and the plant extension incident thereto, the Company incurred indebtedness, not exceeding $375,000 in principal amount and payable with interest in ten equal annual instalments (first instalment due January 1, 1933). By appropriate instruments executed at the time of said consolidation, it is provided that, upon the happening of a default under the Trust Indenture above-mentioned, all payments on account of said indebtedness are subordinated to the payment in full (pursuant to the provisions of said Trust Indenture) of principal of and interest on the Class A Notes to be outstanding after January 14, 1933.

3. Decisions by the Board of Directors as to questions arising in carrying the Plan into effect (not affecting the substance thereof) shall be conclusive. If and when the Plan becomes effective, the physical exchange of securities contemplated in the Plan may be delayed temporarily after the date specified in the Plan, provided that such exchange when made be made as of said specified date.

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SACO-LOWELL SHOPS

ANNUAL REPORT

AND

CERTIFIED CONSOLIDATED STATEMENT

AND

SUMMARY OF CONSOLIDATED NET INCOME

DECEMBER 31, 1933

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SACO-LOWELL SHOPS
AND SUBSIDIARIES

TO THE STOCKHOLDERS:

During the year 1933 your Company made a net profit after all charges of $227,806.98.

Sales for the year were about 87% greater than for the previous year, which was the lowest in the history of the Company. This improvement was the result of a sudden and marked increase in buying which began early in the Summer. As a result of this, the Company was able to ship more than half of the year's total volume during the last four months. Notwithstanding this gratifying improvement, however, and because of the very limited volume during the first eight months, the Company operated at about 45% of its capacity on balanced production, working 40 hours per week, for the year as a whole.

In the Annual Report of last year the statement was made that "many well-informed observers believe that the cotton textile industry will be one of the first to recover and regain some measure of earning power." This opinion seems to have been justified by subsequent developments to date. Inquiries regarding new machinery from our customers became active during June, and in July we began booking orders for substantial quantities of new machinery.

The Code for the cotton textile industry seems to have provided a specific and effective remedy for the ills of that industry which had been caused largely by chronic over-production and the consequent suicidal price-cutting which had kept the mills in a condition of ruinous demoralization for years past. This demoralization has been corrected to a large extent and there is much evidence to support the belief that the cotton textile industry, operating under its Code as now set up, is on a more solid foundation of orderly production and distribution which, if it proves permanent, should enable the well-equipped and ably-managed mills to continue profitable operations. Any fundamental changes in the provisions of the Cotton Textile Code, however, might affect the situation unfavorably.

The year 1923 was the last year in which the cotton mills took anything like their normal replacement requirements of new machinery. For ten years thereafter our customers, in the main, were compelled to defer much needed replacements of worn out and obsolete machinery because of declining earnings, which in many cases eventuated in heavy losses. As a result, there is a large pent-up and long over-due demand for replacements. If a substantial proportion of the mills can continue to make moderate earnings, they should continue to be actively interested in the purchase of new machinery.

In the light of this somewhat improved outlook for the time being, it is interesting to review briefly again the extent to which the plant capacity for manufacturing preparatory and

(Continued after Balance Sheet and Income Summary)

SACO-LOWELL SHOPS
(INCORPORATED IN MASSACHUSETTS)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31, 1933

ASSETS

CURRENT ASSETS:		
Cash,		$326,672.89
Notes and accounts receivable:		
Notes receivable—Trade,	$569,302.43	
Accounts receivable—Trade,	930,994.75	
Accrued interest and miscellaneous,	11,525.12	
Total notes and accounts receivable,	$1,511,822.30	
Less reserve for bad debts,	75,360.15	1,436,462.15
Inventories, at lower of cost or market,		1,439,867.04
Total current assets (including notes and accounts due after December 31, 1934, $297,000.00),		$3,203,002.08
MISCELLANEOUS ASSETS:		
Stocks and bonds of other companies—at cost,	$549,528.92	
Less reserve to reduce to estimated realizable value,	386,240.00	
Estimated realizable value of stocks and bonds,	$163,288.92	
Deposits with factory mutual fire insurance companies,	45,633.30	208,922.22
REAL ESTATE, MACHINERY AND EQUIPMENT—DEPRECIATED VALUE (including estimated realizable values for the idle plants and cost of acquiring and improving real estate at Saco, Maine, held under lease, subject to payment of a ten-year loan payable—see contra),		4,375,849.40
PREPAID INSURANCE, TAXES, ETC.,		30,838.31

Note A:

The payment of the principal of this loan is subordinated, in certain events, to the payment of principal and interest of the 5% Class A Notes and the Working Capital Notes.

Note B:

5% Class A Notes equivalent to fifty per cent of the annual net profits are payable with accrued interest sixty days after the end of each year;

The 7% Class C Convertible Notes are subordinated, as to the payment of principal, to the principal and interest of the 5% Class A notes and the Working Capital Notes;

The 7% Class D Convertible Notes are subordinated, as to the payment of principal and of interest at 7% per annum (with interest thereon), to the 5% Class A Notes and the Working Capital Notes;

The 7% Class B Notes are subordinated, as to the payment of principal and of interest at 7% per annum (with interest thereon), to the principal and interest of the 5% Class A Notes and the Working Capital Notes, and are subordinated, as to the payment of principal and of 2% interest in excess of 5% per annum (with interest thereon), to the principal and interest of the 7% Class C and Class D Convertible Notes;

The payment of $107,400.00 of interest accrued at 2% on Class B Notes prior to January 15, 1933, with interest thereon from that date, is subordinated to the principal and interest of the 5% Class A Notes, the Working Capital Notes, and the 7% Class C and Class D Convertible Notes.

TOTAL,	$7,818,612.01

SACO-LOWELL SHOPS
(INCORPORATED IN MASSACHUSETTS)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31, 1933

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable and accruals,		$208,193.24
Accrued interest (current),		14,545.39
Reserves for Federal capital stock and State excise taxes,		9,515.00
5% working capital notes—*See foot-note B,*		600,000.00
Proportion of 5% class A notes payable on March 1, 1934,		113,903.49
Total current liabilities,		$946,157.12
TEN-YEAR 6% LOAN PAYABLE (balance payable after 1934 in equal annual instalments due January 1, 1935, to January 1, 1942, inclusive)—*See foot-note A,*		300,000.00
FUNDED DEBT—*See foot-note B:*		
5% Class A notes, due January 14, 1936,	$1,160,096.51	
7% Class C convertible notes, due January 15, 1936,	62,300.00	
7% Class D convertible notes, due January 15, 1936,	415,390.00	
7% Class B notes, due January 15, 1936,	895,000.00	
Interest accrued on Class D and Class B notes (including interest thereon), due January 15, 1936:		
7% Class D convertible notes,	28,446.28	
7% Class B notes,	61,290.42	
2% interest accrued on Class B notes at January 15, 1933,	112,561.17	2,735,084.38
RESERVE FOR SUNDRY CONTINGENCIES,		58,024.37
SHAREHOLDERS' EQUITIES:		
Preferred capital stock, 6% cumulative (authorized, issued, and outstanding, 12,500 shares)—Accumulated dividends, $637,500.00,	$1,250,000.00	
Second preferred capital stock, 7% cumulative (authorized, issued, and outstanding, 26,438 shares)—Accumulated dividends, $1,619,327.50,	2,643,800.00	
Total preferred stock,	$3,893,800.00	
Less—Excess of deficit, before deducting net income for 1933, over value of common capital stock, including 1,054 shares issued in 1933 for $1,857.25 (authorized, 132,188 shares without par value; required for conversion of convertible notes, 47,769 shares; outstanding, 68,353 shares with issued value of $5,423,049.25),	342,260.84	
Balance, before net income for 1933,	$3,551,539.16	
Net income for 1933,	227,806.98	3,779,346.14
TOTAL,		$7,818,612.01

SACO-LOWELL SHOPS

(Incorporated in Massachusetts)

AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED NET INCOME FOR THE YEAR ENDED December 31, 1933

Net Operating Profit Before Depreciation,		$687,086.51
Deduct Depreciation,		238,700.26
Net Operating Profit,		$448,386.25
Add:		
Interest and other income from notes and accounts receivable, securities, etc.,	$36,150.58	
Miscellaneous income credits,	1,608.62	37,759.20
Total,		$486,145.45
Deduct:		
Idle plant expenses (net after income),	$41,017.22	
Federal capital stock and State excise taxes,	13,720.25	
Interest,	193,174.80	
Miscellaneous income charges,	10,426.20	258,338.47
Net Income for the Year,		$227,806.98

ACCOUNTANTS' REPORT

Saco-Lowell Shops:

We have made an examination of the consolidated balance sheet of Saco-Lowell Shops (a Massachusetts corporation) and subsidiary companies as of December 31, 1933, and of the summary of consolidated net income for the year 1933. In connection therewith, we examined or tested the accounting records of the company and other supporting evidence and made a general review of the accounting methods and of the income and operating accounts for the year, and verified the cash balances, but, under the terms of our engagement, we did not examine the detailed cash transactions for the year.

The inventories, which were certified to us by responsible officials, were not audited by us as to quantities. They are valued at the lower of cost or market. In accordance with your instructions we did not request customers to confirm to us the balances of notes and accounts receivable.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet, with the notations thereon, and the related summary of consolidated net income of Saco-Lowell Shops and subsidiaries fairly present the financial condition as of December 31, 1933, and the results of the operations for the year ended that date, and have been prepared by the company in accordance with consistent application of its system of accounting and with accepted accounting principles.

Boston, Massachusetts.

March 1, 1934.

HASKINS & SELLS

spinning machinery, of the kind made by this Company, has been liquidated and consolidated in recent years. In 1920, there were nine well-known establishments, each of which had started as an independent company, actively engaged in the manufacture of the kinds of cotton mill machinery which this Company makes. Today there are only three plants left. Liquidation and consolidation, made imperative by continued operating losses, have removed the other six. Saco-Lowell Shops, for example, during the ten years preceding 1933, experienced a shrinkage in its net assets which more than wiped out its surplus as well as the book value of its common stock, as shown in the audited balance sheet included with this report.

Today the Company is operating at something over two-thirds of what its capacity would be on a balanced flow of production working 40 hours per week. On some items, notably spinning, its capacity is employed to a greater extent than this. On other items it is operating well below two-thirds of capacity. As time goes on, if the mills find that their earnings are sustained, machinery of the types for which orders thus far have lagged should be bought in increasing quantities, and our production will become better balanced. The volume of unfilled orders on the books at present is substantial. About 2800 people are on our payrolls today.

The Company is operating under the Code of Fair Competition for the textile machinery industry which was approved by the President on October 16th last. In the main, the provisions of this Code thus far have proven to be fair and practicable so far as the operations of our business are concerned. However, it is too soon to say what may be the effect on our Code and our business of the impending revision of all Codes now under consideration in Washington.

In 1932 the Company reduced its Class A Note indebtedness by $1,456,000. This reduction in its working capital took place at a time when its business was at very low ebb and the need for working capital was small. During the past year, however, the marked improvement in our business necessitated the employment of a much larger amount of working capital. This has been readily obtained by current borrowings entirely adequate for our needs, evidenced by Working Capital Notes.

The great advantages and economies which resulted from the final consolidation of the plant in Newton Upper Falls into the plants in Biddeford and Saco, Maine, are increasingly apparent each month. The costs of effecting this consolidation, which was carried out in 1932, have been more than offset by the operating savings already realized.

The excellence and morale of the personnel composing the Company's organization is its most valuable asset. It was the skill, courage and loyalty of this personnel that, more than any other one thing, enabled the Company to meet successfully the worst conditions of the depression and keep itself strong and ready to take full advantage of the improvement when it came.

A Balance Sheet and Income Summary showing the condition of the Company as of December 31st, last, and audited by Haskins & Sells is included with this report. It is apparent from the Balance Sheet that the Company's capital structure is complicated, comprising as it does five classes of notes and three classes of stock, and stockholders should give consideration, therefore, to the position of each security in the Company's capital structure and its relation to other issues with respect to priority, accumulated interest and dividends, and surplus deficit.

DAVID F. EDWARDS,
President.

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SACO-LOWELL SHOPS

ANNUAL REPORT

AND

CERTIFIED CONSOLIDATED BALANCE SHEET

AND

SUMMARY OF CONSOLIDATED NET INCOME

DECEMBER 31, 1934

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SACO-LOWELL SHOPS
AND SUBSIDIARIES

TO THE STOCKHOLDERS:

In the year 1934 your Company made a net profit, after all charges including provision for estimated taxes, of $519,178.52.

During the first half of the year buying of new machinery was active and the Company was able to operate in good volume and build up a substantial back-log of orders. After mid-Summer, however, the intake of new business began to decline, practically stopped during the general textile strike in September, and has been very small since then. The Company was able to operate in fair, but steadily diminishing, volume during the second half of the year only because of the momentum and orders accumulated during the first half.

Just now the cotton textile industry is in a badly depressed condition. Over-production, with its consequent demoralization of prices, is widespread in many sections of the industry. On numerous types of fabrics prices have been driven down to ruinously low levels. Japanese competition is causing increasing concern and discussion. The possibility of further labor disturbances is an unfavorable factor in the minds of some mill executives. There seems to be a strong and widely held conviction that the processing tax on cotton is exerting a harmful influence on cotton mill operations and should be repealed. The National Industrial Recovery Act expires on June 16th next and there is doubt and difference of opinion as to what may happen to the Code under which the industry is now operating. These factors, and others not so specifically related to the cotton textile industry but affecting economic conditions throughout the country as a whole, have created so much uncertainty and lack of confidence that buying of new cotton mill machinery has again fallen to very low levels.

In previous annual reports the statement has been made repeatedly that the industry's need for new machinery is acute and that the volume of new machinery that should be bought is tremendous. The force of this statement increases with each year that passes. More and more the standard of competitive performance essential to successful operation is being set by the well-equipped mills. Of the approximately 30,000,000 spindles still in place in the cotton mills of the country (about 5,000,000 of which are now inactive) certainly one-half are obsolete in design, largely worn out, and the urgent need to replace them grows more imperative year by year.

Even if a further reduction of spindleage should be necessary to bring production more nearly into balance with normal average consumption, it is certainly conservative to say that the industry should replace at least five million spindles during the next five years in order to carry out a much needed and very modest program of modernization of the spindleage that

(*Continued after Balance Sheet and Income Summary*)

SACO-LOWELL SHOPS (INCORPORAT

CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash,		$937,206.70
Notes and accounts receivable:		
Notes receivable—Trade,	$377,992.36	
Accounts receivable—Trade,	983,607.55	
Accrued interest and miscellaneous,	14,054.78	
Total notes and accounts receivable,	$1,375,654.69	
Less reserves,	127,845.13	1,247,809.56
Inventories (at lower of cost or market),		1,176,779.88
Total current assets (including notes and accounts receivable due after December 31, 1935, $51,112.58),		$3,361,796.14
MISCELLANEOUS ASSETS:		
Stocks and bonds of other companies—At cost,	$523,518.92	
Less reserve to reduce to estimated realizable value,	392,240.00	
Estimated realizable value,	$131,278.92	
Deposits with factory mutual fire insurance companies,	45,224.00	
Real estate mortgage notes receivable,	16,091.40	
Total miscellaneous assets,		192,594.32
REAL ESTATE, MACHINERY AND EQUIPMENT, ETC.—DEPRECIATED VALUE (including idle properties at net book value of $585,822.49 and depreciated net value of cost of acquiring and improving real estate, $342,450.17, held under lease subject to payment of ten-year loan payable—See contra),		4,242,953.54
PREPAID INSURANCE, TAXES, ETC.,		18,632.89

Note A:

5% Class A notes equivalent to fifty per cent of the annual net profits are payable with accrued interest sixty days after the end of each year;

The 7% Class C convertible notes are subordinated, as to the payment of principal, to the principal and interest of the 5% Class A notes;

The 7% Class D convertible notes are subordinated, as to the payment of principal and of interest at 7% per annum (with interest thereon), to the 5% Class A notes;

The 7% Class B notes are subordinated, as to the payment of principal and of interest at 7% per annum (with interest thereon), to the principal and interest of the 5% Class A notes, and are subordinated, as to the payment of principal and of 2% interest in excess of 5% per annum (with interest thereon), to the principal and interest of the 7% Class C and Class D convertible notes;

The payment of $107,400.00 of interest accrued at 2% on Class B notes prior to January 15, 1933, with interest thereon from that date, is subordinated to the principal and interest of the 5% Class A notes and the 7% Class C and Class D convertible notes.

Note B:

The payment of the principal of this loan is subordinated to the payment of principal and interest of the 5% Class A notes.

TOTAL,		$7,815,976.89

n Massachusetts) AND SUBSIDIARIES

SHEET, DECEMBER 31, 1934

LIABILITIES

Current Liabilities:			
Accounts payable and accruals,		$242,854.69	
Accrued interest on Class A and Class C notes,		13,327.26	
Reserves for Federal income, Federal capital stock and State taxes,		116,540.00	
Proportion of 5% Class A notes payable on March 1, 1935 (on or before March 1, 1935, $300,000.00 had been paid on the 5% Class A notes),		259,589.26	
Total current liabilities,			$632,311.21
Funded Debt—*See foot-note A*:			
5% Class A notes, due January 14, 1936,		$900,507.25	
7% Class C convertible notes, due January 15, 1936,		62,300.00	
7% Class D convertible notes, due January 15, 1936,		415,390.00	
7% Class B notes, due January 15, 1936,		895,000.00	
Interest accrued on Class D and Class B notes (including interest thereon), due January 15, 1936:			
7% Class D convertible notes,		59,462.07	
7% Class B notes,		128,117.09	
2% interest accrued on old Class B notes to January 15, 1933, with 5% accrued interest thereon to December 31, 1934,		117,931.17	
Total funded debt,			2,578,707.58
Ten-Year 6% Loan Payable (Balance payable after 1935 in equal annual instalments due January 1, 1936 to January 1, 1942, inclusive)—*See foot-note B*,			262,500.00
Reserve for Sundry Contingencies,			43.417.44
Capital:			
Preferred capital stock, 6% cumulative (authorized and outstanding, 12,500 shares)—Accumulated dividends, $712,500.00,		$1,250,000.00	
Second preferred capital stock, 7% cumulative (authorized and outstanding, 26,438 shares)—Accumulated dividends, $1,804,393.50,		2,643,800.00	
Total preferred stocks,		$3,893,800.00	
Common capital stock (authorized, 132,188 shares without par value; required for conversion of convertible notes, 47,769 shares; outstanding, 68,482 shares), issued value,		5,423,565.25	
Total,		$9,317,365.25	
Deficit, December 31, 1933,	$5,537,503.11		
Deduct net income for 1934,	519,178.52	5,018,324.59	4,299,040.66
Total,			$7,815,976.89

SACO-LOWELL SHOPS
AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME FOR THE YEAR ENDED December 31, 1934

NET OPERATING PROFIT BEFORE DEPRECIATION,		$1,091,930.13
DEDUCT DEPRECIATION (not including depreciation on idle plant),		196,129.47
NET OPERATING PROFIT,		$ 895,800.66
ADD:		
Interest and other income from notes and accounts receivable, securities, etc.,	$ 32,006.29	
Miscellaneous income credits,	14,441.63	46,447.92
TOTAL,		$ 942,248.58
DEDUCT:		
Idle plant expenses—Net (including depreciation of $51,695.99),	$ 89,094.40	
Provision for Federal income, Federal capital stock and State taxes,	116,590.44	
Interest,	204,602.74	
Miscellaneous income charges,	12,782.48	423,070.06
NET INCOME FOR THE YEAR,		$ 519,178.52

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have made an examination of the consolidated balance sheet of Saco-Lowell Shops and subsidiary companies as of December 31, 1934, and of the related summary of consolidated income for the year 1934. In connection therewith, we made a review of the accounting methods, examined or tested, in a manner and to the extent which we considered appropriate in view of the systems of internal accounting control, accounting records of the companies and other supporting evidence, and made a general review of the operating and income accounts for the year, but we did not make a detailed audit of all transactions.

In accordance with your instructions, we did not request customers to confirm to us the balances of notes and accounts receivable.

We did not verify the quantities in the inventories but were furnished with certificates of officials of the companies as to the quantities upon which the inventory values were based.

As to the valuation of stocks and bonds of other companies, the reserve for which is deemed sufficient by the officers of the company, we were unable to determine the estimated realizable value of approximately 50% of the total, because of the lack of market quotations.

The provision for depreciation for 1934 was computed on the basis of estimated remaining life of the various assets, as used for Federal income tax purposes (subject to the approval of the Bureau of Internal Revenue), and amounted to $247,825.46, as compared with a provision of $238,700.26 for 1933.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet and related summary of consolidated income fairly present, in accordance with accepted principles of accounting consistently followed by the companies, the financial condition at December 31, 1934, and the results of the operations for the year.

Boston, Massachusetts.

March 1, 1935.

HASKINS & SELLS

must still continue to be active. The active spindleage today, as given in the latest Government report is about twenty-five millions. If this modest program of replacement, or even a considerable part of it, were carried out your Company should enjoy a most satisfactory volume of business.

Notwithstanding the great volume of this pent-up and long-deferred need for new machinery, however, the experience of the last ten years has shown conclusively that the mills generally do not have the confidence to buy unless there is some prospect of moderate sustained earning power. At the present time, and in fact since last Summer, this prospect of sustained earning power has been lacking, and in consequence, the buying of new machinery has been at very low levels. How much longer this condition will continue is a question on which your management can make no prediction.

During the past year the Company paid off all its current Working Capital Notes, which during the year reached a maximum of $700,000. in amount. In addition, during the past year and the current year to date, the Class A Notes have been reduced by $413,903.49 and today (March 11) stand at $860,096.51, or only 19% of the original amount of $4,550,000.

After making these reductions in its Note indebtedness, the Company still remains in a strong cash position with well over $900,000. of cash on hand as of the date of this report. This strong position makes it possible for the Company to carry on during the present stagnation of business and face the uncertainties of the future with confidence.

The manner in which the consolidated plants in Biddeford and Saco have operated during the past year has proved again the wisdom of the consolidation of the Company's operations into this one compact group of plants. Certain further changes and improvements of a minor character have been made in buildings and equipment and the Company is in a position today to manufacture its products with efficiency and economy, and to take full advantage of any improvement in business when it comes.

A balance sheet and income summary showing the condition of the Company as of December 31st last and audited by Haskins & Sells, is included with this report.

David F. Edwards,
President.

Note: *The foregoing report and the financial statements contained therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

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SACO-LOWELL SHOPS

ANNUAL REPORT

CERTIFIED CONSOLIDATED BALANCE SHEET

AND

SUMMARY OF CONSOLIDATED NET INCOME

DECEMBER 31, 1935

PLAN FOR EXTENSION OF INDEBTEDNESS

DATED DECEMBER 2, 1935, EFFECTIVE JANUARY 10, 1936

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SACO-LOWELL SHOPS

AND WHOLLY-OWNED SUBSIDIARIES

TO THE STOCKHOLDERS:

During the calendar year 1935 your Company just about broke even on its operations, showing a small net profit, after all charges, of $10,917.19.

The annual report of last year stated that at the time that report was issued the cotton textile industry was again in a badly depressed condition and gave some of the reasons therefor. This condition continued until late Summer of last year, at which time some signs of improvement began to appear. By early Autumn moderate improvement was under way and conditions today are somewhat better than they were a year ago. Notwithstanding this improvement, however, the cotton mills, with few exceptions, showed losses for the year. A good many mills that had been able to operate at some profit in previous bad years found their volume so fluctuating and their prices so low last year that they were unable to escape losses. As always happens, your company suffered along with its customers, the cotton mills.

During the first three quarters of the year your Company operated at a loss. In the last quarter, however, business improved sufficiently to enable it to wipe out this loss and close the year with a small profit. The sales volume for last year was only 61% of the volume for the previous year 1934, in which year the company made a profit of $519,178.52. This record is typical of the wide fluctuations in the volume and earnings of our business under the conditions that have prevailed in the cotton textile industry in recent years.

As stated before, conditions at the time this report is issued are somewhat better than they were a year ago. It seems reasonably likely that this improvement will continue into the Spring unless strongly adverse developments should suddenly occur. Beyond that, however, it is impossible to make any predictions. The decision of the Supreme Court invalidating the processing tax on cotton was a favorable factor, but there is still uncertainty and some apprehension as to what kind of legislation may be enacted as a substitute before Congress adjourns.

Reference is made each year in these reports to the number and condition of the spindles active and in place in the cotton textile industry. This repetition is justified by the important bearing these figures have on the outlook for the sale of new cotton mill machinery. During 1935 the number of spindles in place was again reduced, this time by over 1,500,000, and stood on December 31st (the last month for which final figures are now available) at about 29,250,000, as compared with a peak of spindlage in place in 1925 of about 37,900,000, a

(Continued after Balance Sheet and Income Summary)

SACO-LOWELL SHOPS

(INCORPORATED IN MASSACHUSETTS)

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1935

ASSETS

Current Assets:			
Cash,			$1,081,069.31
Notes and accounts receivable:			
Trade notes receivable,		$ 66,341.71	
Domestic and foreign accounts receivable (realization of foreign accounts, in some instances, subject to exchange restrictions as to transfers of funds),		888,481.70	
Accounts receivable from officer and employees,		363.36	
Accrued interest, and miscellaneous,		33,873.66	
Total,		$989,060.43	
Less reserves,		125,922.27	863,138.16
Inventories (at lower of cost or market value),			1,166,634.39
Total current assets,			$3,110,841.86
(Excess of current assets over current liabilities, $2,695,039.32)			
Miscellaneous Assets:			
Trade notes receivable (due subsequent to December 31, 1936),		$ 16,052.80	
Inventories of slow-moving and inactive repair parts, less reserves for estimated losses thereon,		82,739.40	
Stocks and bonds acquired in settlement of notes and accounts receivable,	$475,214.07		
Less reserves,	359,404.47		
Stocks and bonds at estimated realizable values,		115,809.60	
Deposits with factory mutual fire insurance companies,		49,444.00	
Real estate mortgage notes receivable,		10,790.00	274,835.80
Real Estate, Machinery, Equipment, etc.—Depreciated Values:			
Operating properties,		$3,153,199.95	
Non-operating properties,		534,524.59	
Costs incident to property held under lease agreement pending conveyance of title upon completion of payments of ten-year 6% loan instalments—See contra,		331,697.28	4,019,421.82
Deferred Charges (unexpired insurance premiums, advances for expenses, interest from December 31, 1935, to dates of payment, on principal amount of notes paid in January and February, 1936, and interest to January 14 and 15, 1936, on principal amount of Class A and C notes not so paid, etc.),			32,910.30
Total,			$7,438,009.78

SACO-LOWELL SHOPS

(INCORPORATED IN MASSACHUSETTS)

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1935

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable and accruals,			$176,357.56
Federal income, Federal capital stock, and State taxes,			24,564.65
Principal amount of Class A, C, and D notes, with interest thereon to dates of payment, paid January 14 and 15, and February 10, 1936, and interest to January 14 and 15, 1936, on principal amount of Class A and C notes not so paid,			214,880.33
Total current liabilities,			$415,802.54
FUNDED DEBT OUTSTANDING UNDER TRUST INDENTURE DATED JANUARY 14, 1933 (as modified as to maturities, etc., by Extension Agreement dated as of January 10, 1936, in accordance with the "Plan for Extension of Indebtedness" dated December 2, 1935):			
Extended 5% Class A notes, due January 14, 1939 (annual redemption mandatory to extent of 25% of net profits; interest at 4%, 1936-37; 4½%, 1937-38; 5%, 1938-39),			$697,745.68
Working Capital notes (authorized, $1,000,000.00; issued, none),			—o—
Indebtedness subordinated to Extended Class A and Working Capital notes and interest thereon:			
Extended 7% Class C Convertible Notes, due July 15, 1939, (interest subordinated only to extent of 2% in excess of 5%, with interest thereon at 5%, effective from January 15, 1936),		$ 47,000.00	
Extended 7% Class D convertible notes, due July 15, 1939,		395,000.00	
Accrued interest (with interest thereon at 5%)—Payment deferred to maturity,		87,415.05	
Interest accrued at 5% (with interest thereon at 5%) on Extended 7% Class B notes—Payment deferred to maturity thereof,		141,483.05	670,898.10
Indebtedness subordinated to all of the above indicated notes and interest:			
Extended 7% Class B notes, due July 15, 1939,		$895,000.00	
Accrued interest at 2% in excess of 5% (with interest thereon at 5%)—Payment deferred to maturity,		56,593.22	
Interest accrued at 2% on predecessor 7% Class B notes 1927-33 ($107,400.00, with interest thereon at 5% from January 15, 1933)—Payment deferred to maturity of Extended 7% Class B notes,		123,301.17	1,074,894.39
Total funded debt,			$2,443,538.17
TEN-YEAR 6% LOAN (balance—payable in six equal annual instalments beginning January 1, 1937; interest at 5% from January 1, 1936; payment of principal subordinated, under certain conditions, to payment of principal of and interest on Extended 5% Class A notes and Working Capital notes),			$225,000.00
RESERVE FOR CONTINGENCIES,			$ 43,469.22
CAPITAL STOCK AND SURPLUS:			
Preferred 6% cumulative capital stock (authorized and outstanding, 12,500 shares, par value $100.00 each) (accumulated dividends unpaid, $787,500.00),			$1,250,000.00
Second preferred 7% cumulative capital stock (authorized and outstanding 26,438 shares, par value $100.00 each) (accumulated dividends unpaid, $1,989,459.50),			2,643,800.00
Common capital stock (authorized 132,188 shares without par value; reserved for conversion of convertible notes, as of January 10, 1936, 44,200 shares; outstanding, 68,603 shares):			
Issued value,		$5,423,807.25	
Deficit to December 31, 1934,	$5,018,324.59		
Less net income for 1935,	10,917.19	5,007,407.40	416,399.85
Total capital stock and surplus,			$4,310,199.85
TOTAL,			$7,438,009.78

SACO-LOWELL SHOPS

AND WHOLLY-OWNED SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME FOR THE YEAR ENDED December 31, 1935

NET OPERATING PROFIT BEFORE DEPRECIATION,		$439,745.28
PROVISION FOR DEPRECIATION (not including depreciation on idle plant),		198,235.82
NET OPERATING PROFIT,		$241,509.46
ADD:		
Interest and other income from notes and accounts receivable, securities, etc.,	$ 23,991.65	
Miscellaneous income credits,	6,162.52	30,154.17
Total,		$271,663.63
DEDUCT:		
Idle plant expenses—Net (including provision for depreciation of $51,709.50),	$ 70,735.62	
Provision for Federal income, Federal capital stock, and State taxes,	14,881.29	
Interest paid and accrued,	170,201.99	
Miscellaneous income charges,	4,927.54	260,746.44
NET INCOME FOR THE YEAR,		$ 10,917.19

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have made an examination of the consolidated balance sheet of Saco-Lowell Shops and wholly-owned subsidiaries as of December 31, 1935, and of the related summary of consolidated income for the year 1935. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control.

We did not verify the quantities in the inventories but were furnished with certificates of officials of the companies as to the quantities upon which the inventory values were based.

In our opinion, based upon such examination and subject to the foregoing, the accompanying consolidated balance sheet and related summary of consolidated income fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1935, and the results of their operations for the year ended that date.

Boston,
February 20, 1936.

HASKINS & SELLS

reduction during the ten-year period of 8,650,000 spindles. In appraising the significance of this reduction in spindles, however, it must be understood that today the industry is operating quite generally on two shifts of 40 hours each, whereas twenty years ago, or prior to the entrance of the United States into the World War, operation on a single shift basis was the prevailing practice throughout the industry.

The number of spindles active at some time during last December was about 23,400,000, leaving about 5,850,000 spindles idle of the total number in place. Most of these idle spindles are probably so obsolete and so nearly worn out that there is little likelihood of their being put into active operation again except under market conditions much more favorable than any now in prospect. The weight of opinion among mill men seems to be that the active spindles of the industry, operating on the two-shift basis, will eventually stabilize somewhere in the range between twenty and twenty-five millions. Certainly 10,000,000 of the spindles more or less active today should be replaced or thoroughly revamped to make them soundly competitive. This great accumulated volume of business, long held back by the inability of the cotton mills generally to show sustained earnings, if released even at a moderate rate, would enable the textile machinery builders to operate in good volume for many years to come. At the moment, however, the release of any considerable part of this dammed up buying of new machinery is not in sight.

Since the last annual report was issued, your company has reduced its note indebtedness by nearly $200,000, and has extended the balance for three years in the case of the Class A Notes due to the Banks and for 3½ years with respect to all other Notes. Of the $4,550,000, originally due the Banks, only $697,745.68, or about 15%, remains to be paid as of the date of this report (February 28, 1936). The "Plan for Extension of Indebtedness", dated December 2nd, 1935, explaining in detail how the extension of each class of Notes was handled is incorporated with this report.

Your Company closed the year with a very strong current asset position and a cash balance in excess of $1,000,000. The strong current asset statement, coupled with the steady reduction and extension of its note indebtedness enables it to look to the future with confidence in the security of its working capital position. A balance sheet and income summary showing the condition of your company as of December 31st last, and audited by Haskins & Sells, is included with this report.

In concluding, the officers and directors wish to record with a keen sense of loss the death on August 15th in last year of Mr. R. P. Snelling, who had been an officer and director of Saco-Lowell Shops and predecessor companies for over a half century.

David F. Edwards,
President.

February 28, 1936

Note: *The foregoing report and the financial statements contained therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS

PLAN FOR EXTENSION OF INDEBTEDNESS

DECEMBER 2, 1935

As Approved by the Board of Directors, December 16, 1935,
and as Duly Declared Effective on January 10, 1936.

PURPOSE OF PLAN

In January, 1936, there will fall due the entire funded indebtedness of the Company, in principal amount as follows: $860,096.51 5% Class A Notes, $62,300 7% Class C Convertible Notes, $415,390 7% Class D Convertible Notes, and $895,000 Class B Notes. The purpose of the within Plan is to extend the maturities of these Notes (to the extent not paid when due) on the terms and conditions hereinafter set forth.

ACCEPTANCE OF PLAN: EFFECTIVE DATE OF PLAN

A holder of a Note of the Company, the maturity of which is to be extended under the Plan, may accept the Plan by depositing such Note with Old Colony Trust Company, Clearing Agent, accompanied by a duly executed Letter of Assent and Transmittal in such form as the Board of Directors may approve, or in such other manner as the Board of Directors may approve. By accepting the Plan a Noteholder agrees to become bound, upon the Plan being declared effective as below provided, by the terms of the Extension Agreement described in paragraph 1 on the last page.

The Plan will not become effective until the holders of substantially all Notes, the maturities of which are to be extended under the Plan, have accepted the Plan as aforesaid and until declared effective by the President of the Company pursuant to authorization by the Board of Directors.

Upon the Plan being declared effective as aforesaid, all Notes deposited under the Plan will be appropriately stamped with a reference to the above-mentioned Extension Agreement and will be returned to the depositors thereof.

FUNDED DEBT OF COMPANY OUTSTANDING AT DATE OF PLAN

(1) The Class A Notes. $860,096.51 (of an authorized issue of $1,274,000) Three-Year Five Per Centum Class A Notes, due January 14, 1936, issued under a Trust Indenture with Old Colony Trust Company, Trustee, dated January 14, 1933. These Notes may be called for redemption prior to maturity at par and accrued interest. The balance of the authorized issue has, since January 14, 1933, been redeemed prior to maturity and cancelled.

(2) Working Capital Notes. None outstanding. Under the Trust Indenture above-mentioned the Company was authorized, in order to raise additional working capital, to issue from time to time Working Capital Notes (not to exceed $800,000, in principal amount at any one time outstanding) ranking equally with the Class A Notes. All Working Capital Notes issued by the Company since January 14, 1933, have been paid off in full.

(3) Class C Convertible Notes. $62,300 (of an authorized issue of $71,650) Three-Year Seven Per Centum Class C Convertible Gold Notes, due January 15, 1936, issued under the Trust Indenture aforesaid. These Notes are now convertible into common stock on the basis of one share for each $10 of face principal amount, and currently pay interest at 7% per annum. The payment of the principal of these Notes is subordinated to the payment of principal of and interest on the Class A Notes and the Working Capital Notes. These Notes, after all Class A and Working

Capital Notes have been paid, may be called for redemption prior to maturity at par and accrued interest. The balance of the authorized issue of Class C Notes has never been and will not hereafter be issued.

(4) Class D Convertible Notes. $415,390 (of an authorized issue of $477,690) Three-Year Seven Per Centum Class D Convertible Gold Notes, due January 15, 1936, issued under the Trust Indenture aforesaid. These Notes are now convertible into common stock on the same basis as the Class C Notes. Interest at 7% per annum is currently accrued on these Notes each quarter (together with interest at 5% per annum on each accrual). The payment of principal of these Notes and the payment of all interest accrued as aforesaid (which accruals at January 15, 1936, will total $93,229.09) is subordinated to the payment of principal of and interest on the Class A Notes and the Working Capital Notes. These Notes, after all Class A and Working Capital Notes have been paid, may be called for redemption prior to maturity at par and accrued interest. The balance of the authorized issue of Class D Notes has never been and will not hereafter be issued.

(5) Class B Notes. $895,000 (total authorized issue) Three-Year Seven Per Centum Class B Notes, due January 15, 1936, issued under the Trust Indenture aforesaid. Interest at 7% per annum is currently accrued on these Notes each quarter (together with interest at 5% per annum on each accrual). The payment of the principal of these Notes and the payment of all interest accrued as aforesaid is subordinated to the payment of principal of and interest on the Class A Notes and the Working Capital Notes. The payment of the principal of these Notes and the payment of interest at 2% in excess of 5% per annum (with interest on such interest), accrued as aforesaid, is subordinated to the payment of principal of and interest on the Class C and Class D Convertible Notes.

There is also payable at the maturity of these Notes an additional sum equivalent to interest accrued at the rate of 2% per annum from January 15, 1927, to January 15, 1933, upon similar notes for which said Class B or predecessor Class B Notes were exchanged, together with interest at 5% per annum since January 15, 1933, on such accrual. The payment of this additional sum is subordinated to the payment of principal of and interest on the Class A Notes, the Working Capital Notes, and both classes of the Convertible Notes. The interest accruals as to said Class B Notes will total at January 15, 1936: for interest accrued as aforesaid at 5%, with interest thereon: $143,479.69; for interest accrued as aforesaid at 2% in excess of 5%, with interest thereon (including said additional sum): $180,901.89.

PROPOSED EXTENSION OF OUTSTANDING FUNDED DEBT OF COMPANY

(1) The Class A Notes. On January 14, 1936, the Company will pay in full outstanding Class A Notes not held by banks (totalling $12,350.83 principal amount). The balance of said Class A Notes (totalling $847,745.68 principal amount) will be subjected to the terms of the Extension Agreement described in paragraph 1 on the next page; the holders of the Notes so extended agreeing to waive payment of interest thereon in excess of 4% per annum from January 14, 1936, to and including January 13, 1937, and in excess of 4½% per annum from January 14, 1937, to and including January 13, 1938, and also agreeing not to demand, before January 14, 1939, or earlier redemption or default, payment of the principal thereof.

(2) Working Capital Notes. The above-mentioned Extension Agreement will provide that the Company may issue from time to time during the period of extension up to January 14, 1939, in order to raise additional working capital, Working Capital Notes not to exceed $1,000,000 in principal amount at any one time outstanding. No Working Capital Notes so issued shall mature later than January 14, 1939.

(3) Class C Convertible Notes. On January 15, 1936, the Company will pay in full outstanding Class C Notes held by 30 individuals, with whom no arrangements for extension have been made ((totalling $15,300 principal amount). The balance of said Class C Convertible Notes, held by 6 individuals (totalling $47,000 principal amount) will be subjected to the terms of the above-mentioned Extension Agreement; the registered owners and the payee of the Notes so extended agreeing to waive payment currently of interest thereon in excess of 5% per annum from January 15, 1936, to July 15, 1939, and agreeing not to demand, before July 15, 1939, or earlier redemption or default, payment of the principal thereof or of interest accrued thereon to such date at 2% in excess of 5% per annum (with interest on such interest at 5% per annum). The payment of interest accrued as

aforesaid (with interest thereon) will be subordinated to the payment of principal of and interest on the Class A Notes and the Working Capital Notes.

(4) Class D Convertible Notes. On January 15, 1936, the Company will pay in full, both for principal and all accrued interest, outstanding Class D Notes held by 18 individuals, with whom no arrangements for extension have been made (totalling $20,390 principal amount). The balance of said Class D Convertible Notes (totalling $395,000 principal amount) will be subjected to the terms of the above-mentioned Extension Agreement; the registered owners and the payee of the Notes so extended agreeing not to demand, before July 15, 1939, or earlier redemption or default, payment of the principal thereof or of interest accrued to such date at 7% per annum with respect thereto (with interest thereon).

(5) Class B Notes. All outstanding Class B Notes will on January 15, 1936, be subjected to the terms of the above-mentioned Extension Agreement; the registered owners and the payee of the Notes so extended agreeing not to demand, before July 15, 1939, or earlier default, payment of the principal thereof or of interest accrued to such date with respect thereto and with respect to predecessor Class B Notes (with interest thereon).

MISCELLANEOUS

1. *Extension Agreement.* As of the effective date of the Plan, the Company, Old Colony Trust Company, Trustee under the Trust Indenture aforesaid, and all holders of the Company's Notes accepting the Plan as aforesaid will join in an Extension Agreement, the terms of which will appropriately give effect to the provisions of the Plan (in modification of the terms of the several Notes affected thereby and of said Trust Indenture). Among its terms, other than those directly or indirectly referred to above in the Plan, the Extension Agreement will provide for a waiver after January 14, 1936, of the Company's covenants in said Notes and said Trust Indenture with respect to the maintenance by the Company of a stated current asset position (Trust Indenture, Article VIII, Section 2(*a*)), with respect to the payment of any Convertible Notes in gold, and with respect to the mandatory application of the Company's net profits in any fiscal year to the redemption of Class A Notes, to the extent that the Company is required thereby to apply such net profits in excess of 25% thereof (Trust Indenture, Article III, Section 5). The said Extension Agreement, except as herein mentioned, will generally confirm and extend all other terms of said Notes and said Trust Indenture during the period of extension.

2. *The Ten-Year 6% Loan.* In 1932-33 the Company borrowed $375,000, under a contract with certain Maine corporations, to finance the consolidation of its manufacturing facilities at Biddeford, Maine. This loan has been reduced to $225,000, which balance is payable by the Company in six annual instalments (with 6% annual interest). The payment of the principal of this loan is, in certain events specified in said contract, subordinated to the payment in full, pursuant to the provisions of the above-mentioned Trust Indenture, of principal of and interest on Class A Notes and Working Capital Notes issued under said Trust Indenture. The outstanding Class B Notes are pledged by their owners as collateral to secure the repayment by the Company of this loan.

The status of this loan will remain unchanged, except that the rate of interest payable on said loan in 1936 and thereafter may be reduced by agreement with the above-mentioned Maine Corporations or their successors in interest, and except that the Class B Notes pledged as collateral therefor will, as above set forth, be subjected to the terms of the above-mentioned Extension Agreement and appropriately stamped with reference thereto, and that all parties interested in said loan will waive the Company's failure to pay, when due on January 14 and 15, 1936, principal and interest with respect to its obligations issued under said Trust Indenture, and the consequences thereof.

3. *Administration.* Decisions by the Board of Directors as to questions arising in carrying the Plan into effect (not in the Board's opinion affecting the substance thereof) shall be conclusive. If and when the Plan becomes effective, the stamping of securities contemplated in the Plan may be delayed temporarily after the date specified in the Plan, provided that such stamping when made be made as of said specified date.

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SACO-LOWELL SHOPS

ANNUAL REPORT
CERTIFIED CONSOLIDATED BALANCE SHEET
AND
SUMMARY OF CONSOLIDATED NET INCOME

DECEMBER 31, 1936

OF THE
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SACO-LOWELL SHOPS

AND WHOLLY-OWNED SUBSIDIARIES

TO THE STOCKHOLDERS:

During the calendar year 1936 your company made a net profit after all charges of $713,357.46. A balance sheet and summary of consolidated income, certified by our auditors, Haskins & Sells, are included with this report. Enclosed also is a notice of the annual meeting of stockholders to be held March 8, 1937, and with copies of this letter sent to holders of the 6% Preferred stock and the Common stock there is also enclosed a proxy on a return post card. Because of the particularly important nature of the business to be taken up at the annual meeting this year, as indicated by the enclosed notice and as further explained below, holders of these two classes of stock, if they do not plan to be present, are urged to sign and return their proxies promptly.

The net profit before making provision for Federal taxes applicable to income was $995,261.67. Against this figure was charged $160,144.21 which included normal Federal income taxes and $3,940. of excess profit taxes, leaving a balance of $835,117.46 before applying the Federal surtax on undistributed profits of $121,760. It will be noted that the total of these Federal taxes on income amounts to $281,904.21, or about 28% of the company's earnings before deduction of Federal taxes.

The new Federal surtax on undistributed profits, enacted by Congress in 1936 and effective for the first time upon the earnings of that year, is especially severe and burdensome in its application to the affairs of this company because it makes no adequate provision for the needs of those companies which must use their earnings, in whole or in part, to pay off indebtedness. Your company still owes $2,506,593.85 (exclusive of current liabilities) of which over 95% is due within two and one-half years. Of this amount, $520,348.17 is interest accrued but not paid, an obligation which clearly should be discharged before dividends are paid on any class of stock. The company's balance sheet under its present capital structure also shows a capital deficit of over $4,000,000., and under the laws of Massachusetts it would probably be necessary to make a change in the company's capital structure before paying dividends on any class of stock, even if other considerations made such action possible or desirable. In addition, the Indenture covering the company's Class A Notes

(Continued after Balance Sheet and Income Summary)

SACO-LOWELL SHOPS

(INCORPORATED IN MASSACHUSETTS)

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1936

ASSETS

CURRENT ASSETS:			
Cash,			$ 605,434.72
Notes and accounts receivable:			
Trade notes receivable,		$ 111,411.54	
Domestic and foreign accounts receivable,		1,591,178.39	
Accounts receivable from employees,		356.51	
Accrued interest, and miscellaneous,		11,607.01	
Total,		$1,714,553.45	
Less reserves,		120,957.68	1,593,595.77
Inventories (at lower of cost or market value),			1,832,634.69
Total current assets,			$4,031,665.18
(Excess of current assets over current liabilities, $3,289,086.51)			
MISCELLANEOUS ASSETS:			
Trade notes receivable (due subsequent to December 31, 1937),		$ 104,590.41	
Inventories of slow-moving and inactive repair parts, less reserves for estimated losses thereon,		78,004.41	
Stocks and bonds acquired in settlement of notes and accounts receivable,	$429,914.07		
Less reserves,	326,104.47		
Stocks and bonds at estimated realizable values,		103,809.60	
Deposits with factory mutual fire insurance companies,		50,850.00	
Real estate mortgage notes receivable,		5,065.00	342,319.42
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. — DEPRECIATED VALUES:			
Operating properties,		$3,120,115.99	
Non-operating properties,		482,898.64	
Costs incident to property held under lease agreement pending conveyance of title upon completion of payments of ten-year loan instalments — See contra,		327,631.50	3,930,646.13
DEFERRED CHARGES (unexpired insurance premiums, advances for expenses, interest from December 31, 1936, to January 14 and 15, 1937, accrued in advance on principal amount of Extended Class A and C notes, etc.),			22,406.54
TOTAL,			$8,327,037.27

SACO-LOWELL SHOPS

(INCORPORATED IN MASSACHUSETTS)

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1936

LIABILITIES

Current Liabilities:			
Accounts payable and accruals,			$ 386,142.75
Accrued Federal income tax, Federal surtax on undistributed profits, and other taxes,			341,758.46
Interest accrued on Class A and C notes, to January 14 and 15, 1937, respectively,			5,302.46
Interest accrued on ten-year loan (paid January 2, 1937),			9,375.00
Total current liabilities,			$ 742,578.67
Funded Debt Outstanding Under Trust Indenture Dated January 14, 1933 (as modified as to maturities, etc., by Extension Agreement dated as of January 10, 1936, in accordance with the "Plan for Extension of Indebtedness" dated December 2, 1935):			
Extended 5% Class A notes, due January 14, 1939 (annual redemption mandatory to extent of 25% of net profits; interest at 4%, 1936-37; 4½%, 1937-38; 5%, 1938-39),			$ 472,745.68
Working Capital notes (authorized, $1,000,000.00; issued, none),			—o—
Indebtedness subordinated to Extended Class A and Working Capital notes and interest thereon:			
Extended 7% Class C convertible notes, due July 15, 1939 (interest subordinated only to extent of 2% in excess of 5%, with interest thereon at 5%, effective from January 15, 1936),		$ 46,000.00	
Interest accrued at 2% in excess of 5% (with interest thereon at 5%)—Payment deferred to maturity of notes,		900.03	
Extended 7% Class D convertible notes, due July 15, 1939,		385,000.00	
Accrued interest (with interest thereon at 5%)—Payment deferred to maturity of notes,		116,644.04	
Interest accrued at 5% (with interest thereon at 5%) on Extended 7% Class B notes—Payment deferred to maturity of notes,		193,691.38	
Promissory 5% notes, due July 15, 1939 (issued in payment of interest accrued on Extended Class C and D notes to dates of conversion thereof),		2,947.57	
Accrued interest on promissory notes—Payment deferred to maturity of notes,		17.43	745,200.45
Indebtedness subordinated to all of the above indicated notes and interest:			
Extended 7% Class B notes due July 15, 1939,		$895,000.00	
Accrued interest at 2% in excess of 5% (with interest thereon at 5%)—Payment deferred to maturity of notes,		77,476.55	
Interest accrued at 2% on predecessor 7% Class B notes 1927-33 ($107,400.00, with interest thereon at 5% from January 15, 1933)—Payment deferred to maturity of Extended 7% Class B notes,		128,671.17	1,101,147.72
Total funded debt,			$2,319,093.85
Ten-Year Loan (balance—payable in five equal annual instalments beginning January 1, 1938; interest at 5% from January 1, 1936; payment of principal subordinated, under certain conditions, to payment of principal of and interest on Extended 5% Class A notes and Working Capital notes),			$ 187,500.00
Reserve for Contingencies,			$ 43,172.44
Capital Stock and Surplus:			
Preferred 6% cumulative capital stock (authorized and outstanding, 12,500 shares, par value $100.00 each) (accumulated dividends unpaid, $862,500.00),			$1,250,000.00
Second preferred 7% cumulative capital stock (authorized and outstanding, 26,438 shares, par value $100.00 each) (accumulated dividends unpaid, $2,174,525.50),			2,643,800.00
Common capital stock (authorized 132,188 shares without par value; reserved for conversion of convertible notes, 43,100 shares; outstanding, 69,748 shares):			
Issued value,		$5,434,942.25	
Deficit to December 31, 1935,	$5,007,407.40		
Less net income for 1936,	713,357.46	4,294,049.94	1,140,892.31
Total capital stock and surplus,			$5,034,692.31
Total,			$8,327,037.27

SACO-LOWELL SHOPS

AND WHOLLY-OWNED SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME FOR THE YEAR ENDED December 31, 1936

NET OPERATING PROFIT BEFORE DEPRECIATION,		$1,465,050.19
PROVISION FOR DEPRECIATION (not including depreciation on idle plant),		201,474.24
NET OPERATING PROFIT,		$1,263,575.95
ADD:		
Interest and dividends,	$18,122.39	
Miscellaneous income credits,	3,566.48	21,688.87
GROSS INCOME,		$1,285,264.82
DEDUCT:		
Idle plant expenses—Net (including provision of $51,709.50 for depreciation),	$ 78,319.61	
Provision for unemployment, Federal capital stock, and state taxes,	54,457.40	
Interest on funded debt and ten-year loan,	152,379.14	
Miscellaneous income charges,	4,847.00	290,003.15
NET INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME AND FEDERAL SURTAX ON UNDISTRIBUTED PROFITS,		$ 995,261.67
LESS—PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES,		160,144.21
NET INCOME BEFORE PROVISION FOR FEDERAL SURTAX ON UNDISTRIBUTED PROFITS,		$ 835,117.46
LESS—PROVISION FOR FEDERAL SURTAX ON UNDISTRIBUTED PROFITS,		121,760.00
NET INCOME FOR THE YEAR,		$ 713,357.46

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have made an examination of the consolidated balance sheet of Saco-Lowell Shops and wholly-owned subsidiaries as of December 31, 1936, and of the related summary of consolidated income for the year 1936. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control. As to inventories, we made selective tests of quantities, and the quantities and condition were certified to us by officials of the companies.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related summary of consolidated income fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their financial condition at December 31, 1936, and the results of their operations for the year ended that date.

Boston,
February 9, 1937.

HASKINS & SELLS.

provides — (1) That all these notes become immediately due and payable if the company pays dividends on any class of stock, and (2) That one-quarter of the company's net earnings shall be applied to the payment of the Class A Notes each year.

The foregoing are some of the many considerations which have a bearing on the problem presented by this new Federal surtax on undistributed profits. After a most thorough study of the whole matter, and after obtaining the opinion of the company's attorneys, your management was forced to the conclusion that under its present capital structure the company could not properly disburse its earnings in dividends and, therefore, for the time being at least, provision must be made for the payment of the surtax on undistributed profits.

As indicated by the earnings of almost a million dollars before Federal taxes applicable to income, your company's volume of business in 1936 showed marked improvement over the previous year. The value of shipments was 75% greater than in 1935 in which year the company just about broke even. This improvement has been sustained during the current year to date and at the time this statement is issued the volume of unfilled orders on the books is over 75% greater than at the corresponding time last year. The cotton mills which are the company's customers are in most instances operating in good volume and at a fair margin of profit. Accordingly, they are interested in the decisive advantages of new machinery and are able to purchase it. As has been stated repeatedly in previous annual reports there is a substantial accumulated volume of business long held back by the inability of the cotton mills generally to show sustained earnings. This pent-up demand for new machinery, if released even at a moderate rate through continuation of improved earnings by the cotton mills, would provide a good volume of business for the textile machinery builders.

The company's financial position has been greatly strengthened during the past year. The total of receivables and inventory has increased by more than $1,400,000. over the previous year, reflecting the greatly increased volume of business which the company is now doing and this increase has been accomplished without resort to additional loans for working capital and the company closed the year with a cash balance in excess of $600,000.

Even a brief study of the balance sheet, which accompanies this report, will make clear the very clumsy and relatively complicated character of the company's present capital structure, which includes four classes of notes, accrued unpaid interest, a special loan, and three classes of stock, a total of nine different elements in the capital structure.

As already stated, the company's total indebtedness, exclusive of current indebtedness, is $2,506,593.85, of which more than 95% will be due and payable within two and one-half years. Reference has already been made to the fact that this indebtedness includes $520,348.17 of accrued interest which has not been paid because among other reasons the Indenture governing the Class A Notes forbids the payment of this interest so long as any of the Class A Notes remain outstanding. Interest charged against income in 1936 amounted to $152,379.14, a very considerable burden for a business of this size and character to carry. Accumulated dividends as of December 31st last on the 6% Preferred stock amount to $862,500; and on the 7% Second Preferred stock to $2,174,525.50, a total of accumulated dividends on both classes of Preferred stock of $3,037,025.50.

At this point consideration should be given to the position of the various classes of shareholders under the present capital structure of the company. Assuming that the company's indebtedness other than its current liabilities ought to be largely wiped out before dividends are paid, and using the earnings of 1936 as a basis of calculation, and assuming no change in the tax law, it would require about four years to liquidate the indebtedness including current Federal taxes payable, one and one-half years more to liquidate the accumulated dividends on the 6% Preferred stock, and a further period of four years to liquidate the accumulated dividends on the Second Preferred stock. Or stating it another way, it would be about four years before the 6% Preferred could begin to receive dividends; five and one-half years before the Second Preferred could begin to receive dividends, and ten years before the Common could begin to receive dividends. If annual earnings should average considerably less than the amount earned in 1936 (and the earnings in 1936 were the largest since 1929), then these periods of time that must elapse before the various classes of stock could receive dividends would be proportionately lengthened. Having in mind the heavy surtax on undistributed profits, the foregoing analysis makes clear the urgent need of reorganizing and simplifying the company's capital structure.

A highly competitive business such as this is, whose sales are dependent upon the ability of the cotton mills to make money, and whose volume may fluctuate widely from year to year, should be as free as possible from permanent debt and not burdened with fixed charges. This idea must be regarded as basic in the consideration of any sound long range dividend and financial policy. Accordingly, as has already been indicated, it is the considered opinion of the management that the company should not begin paying dividends until substantially all of its indebtedness has been liquidated. It is proposed to leave the Class A Notes in the amount of $472,745.68 undisturbed for the present because, as previously stated, a provision in the Indenture under which they were issued requires the company to apply 25% of its net earnings each year toward the liquidation of these notes. This provision, in the opinion of the company's attorneys, would enable the present company to liquidate this particular part of its indebtedness from earnings without subjecting the earnings so used to the special surtax on undistributed profits, although this exemption may or may not apply if the company's financial structure is reorganized through the formation of a new corporation. Earnings applied to the reduction of the remaining indebtedness, however, will, if the law remains unchanged, probably subject the company to the surtax on undistributed profits.

In order to reorganize and simplify the unwieldy capital structure which the company now has and in order to retire the debt of the company other than the Class A Notes and current operating indebtedness, and to put it in a position where dividends may be paid, thus reducing the heavy tax on undistributed profits, the management of the company has been giving long and serious study to the problem of financial reorganization. Because of various legal aspects of the problem which remain to be worked out, the management is not yet in a position to announce the plan in final form. For the information of the shareholders at this time, however, the plan which the management is working on and which it expects to submit in definitive form shortly after the annual meeting, involves the following:

A—The formation of a new corporation and the transfer to that corporation of the assets of the present company, and the assumption by the new corporation of the debts of the present company.

B—The issuance by the new corporation of its Convertible Preferred stock (having a par value of $20., and a dividend rate of $1. per share, and convertible into Common stock of the new corporation share for share), and of its Common stock (no par value), to shareholders of the present company upon the following basis:

(1) *6% Preferred stock of the Present Company.*
For each share of such stock of the present company and accumulated dividends thereon
3 shares of Convertible Preferred stock and
3 shares of Common stock, of the new corporation.

(2) *Second Preferred stock of the Present Company.*
For each share of such stock of the present company and accumulated dividends thereon
1½ shares of Convertible Preferred stock and
1½ shares of Common stock, of the new corporation.

(3) *Common stock of the Present Company.*
For each 3 shares of such stock of the present company, 1 share of Common stock of the new corporation.

C—Issuance by the new corporation of rights to subscribe to stock of the new corporation in such amounts as to provide sufficient cash for the payment of the B, C, and D Notes and the Special Loan of the present company, such offering of rights to be underwritten so that all stock not subscribed for by shareholders will be taken up by the underwriters.

D—Out of the cash realized from the stock offering, pay off the B, C, and D Notes of the present company and the Special Loan, thus leaving outstanding of the present debt (other than current liabilities) only the Class A Notes in the amount of $472,745.68, on which the annual interest charge at 4½% for 1937 would be $21,273.55. (As mentioned before, the amount of interest charged against earnings in 1936 was $152,379.14.)

The foregoing is but a brief outline of the principal features of the proposed plan and is, of course, subject to change. When the plan is ready for formal announcement, which will not be until after the regular annual meeting of the company which the by-laws prescribe shall be held on March 8, 1937, due notice together with copies of the plan in final form will be sent to all shareholders and a special meeting of the shareholders will be called to act upon it.

Meanwhile, and this is of great immediate importance, we have been advised by counsel that it is desirable that each class of shareholders be given the opportunity of voting on any plan of financial reorganization that may be submitted. At the present time the Second Preferred stock has no voting power. In order to place the holders of this class of stock in a position to vote on a plan of reorganization when submitted, one of the purposes of the annual meeting, as you will observe in the notice of that meeting which is enclosed, is to consider and act upon the matter of conferring voting power upon the Second Preferred stock for a period ending with December 31, 1937. As the conferring of such voting power requires two-thirds votes of the 6% Preferred and Common stock, each holder of such stock is requested to sign and return the enclosed proxy. Unless otherwise instructed, it will be voted in favor of conferring voting power upon the Second Preferred stock for the period stated.

Your directors strongly urge that you sign and return the enclosed proxy without delay in order that it may be possible to obtain the two-thirds vote at the annual meeting required to give the Second Preferred stock voting power, thus taking the first step in the direction of a sound and comprehensive plan for reorganizing the company's capital structure. Your action in signing and mailing the enclosed proxy, however, does not commit you for or against the plan of financial reorganization, the essential features of which are very briefly indicated in this report.

By Order of the Directors,

DAVID F. EDWARDS,
President.

February 18, 1937.

NOTE: *The foregoing report and the financial statements contained therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

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SACO-LOWELL SHOPS

60 Batterymarch Street
Boston, Mass.

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February 14, 1938.

To the Stockholders:

As you have been advised already, the Reorganization Plan has been completed. The stock of the New Company, organized under Maine law last November, has been issued in accordance with the Plan and the New Company received on December 16, 1937, the assets of the Old Company (a Massachusetts corporation) subject to the latter's liabilities.

The New Company is now carrying on the business of the Old Company. There has been no interruption or change in the manufacturing and selling activities of the business and its operating continuity. The Reorganization Plan was designed solely to strengthen and simplify the complicated capital structure of the business, reduce its debt, and make possible the payment of dividends as earnings and conditions warrant. These objectives have now been reached.

The Board of Directors of your Company (the New Company) on January 12, 1938, declared dividends on its outstanding capital stock of record on February 1, 1938, payable on February 15, 1938, as follows:

Class A Convertible Preferred Stock: a regular quarterly dividend of 25¢ per share.
Class B Convertible Preferred Stock: a regular quarterly dividend of 25¢ per share.
Common Stock: a dividend of 25¢ per share.

Check(s) in payment of the foregoing dividend(s) are enclosed herewith to all stockholders who have prior to this date delivered to Old Colony Trust Company, *Clearing Agent,* their certificates for stock (or certificates of deposit therefor) of the Old Company and received their certificates for stock of this Company.

A small number of persons have delayed or neglected to send in to the Clearing Agent their Old Company stock certificates or certificates of deposit. If you are one of these persons, please act at once to send in your certificates. You will receive in exchange certificate(s) for the shares of stock of this Company to which you are entitled under the Reorganization Plan, together with check(s) covering the above dividends declared on your shares. It will expedite the payment of these dividends to you and save expense to your Company if you act promptly.

Some stockholders are now holding scrip certificates for fractional interests in the Company's stock, which scrip certificates are *non-dividend-bearing* and *non-voting* and *become valueless* on the last day of the fifteenth full calendar month following the date thereof. If you have any scrip certificates, you should arrange through your broker or banker either for the sale of your scrip or for the purchase of sufficient additional scrip to enable you to exchange your scrip for full shares of stock so that you may thereafter receive any dividends payable on such stock. Dividends are paid only to holders of record of shares of stock on the record date for determining stockholders entitled to receive dividends, and no dividends accrue or are payable on account of scrip.

The following financial statements are included herewith:

Consolidated Balance Sheet of your Company at commencement of business, December 17, 1937, adjusted to reflect certain transactions carried through on or prior to January 3, 1938, and having to do with the liquidation of the debts of the Old Company and the completion of the Reorganization Plan; and related Summary of Paid-in Surplus.

Summary of Consolidated Income of the Old Company for the period from January 1 to and including December 16, 1937.

These financial statements, which are based on a physical inventory taken as of December 16, 1937, have been audited by Messrs. Haskins & Sells. They are subject, to the extent applicable, to the notes appended to the financial statements published in your Company's Prospectus dated December 16, 1937.

The current fiscal year of your Company, as prescribed in its by-laws, began on December 1, 1937. At or prior to your Company's annual meeting in February, 1939, you will receive the usual annual report and audited financial statements covering the first fiscal year of its operations.

You are all familiar with the sharp decline in general business in this country, which began late last summer. This decline has been particularly acute in the cotton textile industry, which is the market for your Company's products. From a high point in August, 1937, your Company's volume of unfilled business has steadily diminished. At the present time only a negligible volume of new business is being booked. In consequence your Company has been forced to curtail its operations drastically. At the time this report is issued it is not possible to make a reliable forecast as to how soon improvement may be expected.

Notwithstanding the current stagnation of business, your Company is able to face the future with confidence and a feeling of security made possible by the completion of its Reorganization Plan, which greatly reduced its debt and strengthened its financial position.

By Order of the Board of Directors,

DAVID F. EDWARDS,
President.

The foregoing report and the included financial statements are submitted for the general information of the Company's security holders as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.

SACO-LOW
(New Company—I
And Subsidi

CONSOLIDATED BALANCE SHEET AT COMMENCEM

(Pursuant to "Reorganization Plan: Saco-Lowell Shops: October 29, 1937," Saco-Lowell Shops (a Massachusetts c
business on December 16, 1937, all of its assets subject to its liabilities (except certain cash reserved and later used to pay
paid by it out of cash so reserved, pursuant to the "Plan," and gives effect to the following transactions carried through, in
"Plan," of its Class A Convertible Preferred Stock and of its Common Stock to or for the account of the holders of all capital
Stock to employees (other than officers) of the Old Company; (*c*) the receipt by the New Company of $901,593 in cash thr
(*d*) the receipt by the New Company of $1,200,000 in cash through the Five-Year Serial Loan referred to in the "Plan
dates of payment; (*f*) the acquisition by the New Company of title to property in Saco, Maine, previously held under l
or not fully incurred or paid at January 3, 1938.)

ASSETS

CURRENT ASSETS:			
Cash, on demand,			$ 256,380.07
Notes and accounts receivable:			
Notes receivable — customers (not past due),		$ 200,485.40	
Accounts receivable — customers,	$2,101,165.94		
Other accounts receivable and interest accrued on notes receivable,	17,125.11	2,118,291.05	
Total notes and accounts receivable,		$2,318,776.45	
Less reserves for doubtful notes and accounts and for allowances, adjustments, etc.,		159,360.34	2,159,416.11
Inventories (not in excess of the lower of cost or market value),			1,973,399.86
Total current assets,			$4,389,196.04
MISCELLANEOUS ASSETS:			
Notes receivable — customers (due subsequent to December 16, 1938),		$ 138,214.19	
Inventories of slow-moving and inactive repair parts, etc., less reserve of $100,389.79 for estimated losses thereon,		63,814.66	
Deposits with factory mutual fire insurance companies,		48,039.00	
Real estate mortgage notes receivable,		4,222.00	
Miscellaneous securities (acquired in settlement of notes and accounts receivable),	$ 427,414.07		
Less reserve for depreciation of miscellaneous securities,	324,226.57	103,187.50	357,477.35
REAL ESTATE, MACHINERY, EQUIPMENT, ETC.—DEPRECIATED LEDGER VALUES:			
Operating properties,		$3,383,144.71	
Non-operating properties,		407,563.52	3,790,708.23
DEFERRED CHARGES:			
Prepaid expenses,		$ 6,481.52	
Cash advances to employees for expenses,		6,864.46	
Interest on long-term debt from December 16, 1937 to date of payment, January 3, 1938,		5,409.41	18,755.39
TOTAL ASSETS,			$8,556,137.01

NOTE: The Old Company's Federal income tax returns for years prior to 1936 have be
result thereof have been paid.

For the year 1936, the Old Company claimed as a credit for purposes of determi
profits, the amount required as mandatory redemption of its Extended 5%
allowed by the Treasury Department, there may result an assessment for
accrued thereon, for which no provision has been made in this balance shee

For the year 1937, the Old Company intends to claim that it is not liable for the
to 25% of its net profits for 1937 (the amount required as mandatory redem
for purposes of determining the surtax, there may result an assessment f
be allowed by the Treasury Department, there may result an assessment
amount has been provided.

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porated in Maine)
Companies

OF BUSINESS, DECEMBER 17, 1937 (AS ADJUSTED)

ation, the "Old Company") transferred to Saco-Lowell Shops (a Maine corporation, the "New Company") at the close of
in liabilities of the Old Company). This balance sheet gives effect to the payment by the Old Company of the liabilities to be
letion of the "Plan," between December 16, 1937, and January 3, 1938: (*a*) the issue by the New Company, pursuant to the
of the Old Company outstanding on December 16, 1937; (*b*) the issue by the New Company of 2,500 shares of its Common
the sale in *units* of 27,321 shares of its Class B Convertible Preferred Stock and 27,321 shares of its Common Stock;
) the payment of all long-term debt outstanding on December 16, 1937, with interest thereon and in respect thereto to
agreement; and (*g*) the deduction from surplus of an amount estimated to cover all reorganization expenses, whether

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Five-year serial loan — minimum amount payable on December 17, 1938,			$ 150,000.00
Accounts payable — trade,			142,887.39
Customers' advance payments on sales contracts,			15,056.59
Accrued liabilities:			
Federal income, Federal capital stock, social security, and State taxes (see footnote),		$ 220,522.22	
Royalties, commissions, accrued payrolls, etc.,		165,587.87	
Expenses incident to organization of the New Company,		17,922.12	404,032.21
Total current liabilities,			$ 711,976.19
FIVE-YEAR SERIAL LOAN-BALANCE DUE WITHIN FIVE YEARS FROM DECEMBER 17, 1937 (annual retirement mandatory to extent of the greater of $150,000 or 20% of net annual earnings; interest at 4%, first year; 4½%, second and third years; 5%, fourth and fifth years),			1,050,000.00
RESERVE FOR POSSIBLE ASSESSMENT OF FEDERAL SURTAX ON UNDISTRIBUTED PROFITS FOR 1937 (see footnote),			175,000.00
CAPITAL STOCK:			
Class A convertible preferred stock (authorized and issued, 77,157 shares; par value $20.00 per share; entitled to annual cumulative dividend of $1.00 per share; entitled on liquidation to $25.00 per share, $1,928,925.00, until January 1, 1943, and thereafter to $22.50 per share, $1,736,032.50; in either case, together with accumulated dividends),		$1,543,140.00	
Class B convertible preferred stock (authorized 56,802 shares; par value $20.00 per share; entitled to annual cumulative dividend of $1.00 per share; issued 27,321 shares; entitled on liquidation to $25.00 per share, $683,025.00, until January 1, 1943, and thereafter to $22.50 per share, $614,722.50; in either case, together with accumulated dividends),		546,420.00	
Common stock (authorized, 316,000 shares; par value $5.00 per share; reserved solely for conversion of outstanding convertible preferred stock, 107,210 shares; issued, 142,002 shares),		710,010.00	
Total capital stock,		$2,799,570.00	
SURPLUS:			
Paid-in surplus (per summary of paid-in surplus),	$3,841,070.84		
Less expenses incident to organization of the New Company,	21,480.02	3,819,590.82	6,619,160.82
TOTAL LIABILITIES, CAPITAL, AND SURPLUS,			$8,556,137.01

reviewed by the Treasury Department, and any additional taxes assessed as a

Federal surtax on undistributed profits an amount equivalent to 25% of its net
A Notes under the terms of the related Trust Indenture; should the credit not be
itional Federal surtax in an amount of approximately $62,000.00 plus interest

ment of any Federal surtax on undistributed profits; should an amount equivalent
n of its Extended 5% Class A Notes, as aforesaid) be allowed as the only credit
ch surtax in an amount of approximately $118,000.00; however, should no credit
surtax in an amount of approximately $175,000.00, for which a reserve in that

SACO-LOWELL SHOPS

(Old Company—Incorporated in Massachusetts)

And Subsidiary Companies

SUMMARY OF CONSOLIDATED INCOME FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 16, 1937

NET OPERATING PROFIT BEFORE DEPRECIATION,		$1,573,537.83
PROVISION FOR DEPRECIATION (not including depreciation on non-operating properties),		198,250.47
NET OPERATING PROFIT,		$1,375,287.36
ADD:		
Interest and dividends,	$ 25,768.11	
Miscellaneous income credits,	4,717.90	30,486.01
GROSS INCOME,		$1,405,773.37
DEDUCT:		
Maintenance and other expenses of non-operating properties (including provision of $75,377.62 for depreciation), less rentals,	$ 92,099.11	
Provision for Federal capital stock, social security, and State taxes,	134,426.16	
Interest on funded debt and on ten-year loan,	123,311.23	
Miscellaneous income charge,	4,873.00	354,709.50
NET INCOME BEFORE PROVISIONS FOR REORGANIZATION EXPENSES, FEDERAL INCOME TAX, AND FEDERAL SURTAX ON UNDISTRIBUTED PROFITS,		$1,051,063.87
DEDUCT:		
Reorganization expenses (not including expenses incident to organization of the New Company),	$ 84,495.78	
Provision for Federal income tax,	157,135.00	
Provision for possible assessment of Federal surtax on undistributed profits for 1937 (see consolidated balance sheet footnote),	175,000.00	416,630.78
NET INCOME FOR THE PERIOD,		$ 634,433.09

SACO-LOWELL SHOPS

(New Company—Incorporated in Maine)

And Subsidiary Companies

SUMMARY OF PAID-IN SURPLUS AT COMMENCEMENT OF BUSINESS, DECEMBER 17, 1937 (AS ADJUSTED)

(Giving effect to certain transactions carried through in completion of the "Reorganization Plan," between December 16, 1937, and January 3, 1938 — see headnote on accompanying consolidated balance sheet)

NET WORTH OF SACO-LOWELL SHOPS (OLD COMPANY) AND SUBSIDIARY COMPANIES, DECEMBER 16, 1937:		
Capital stock *less* deficit, January 1, 1937,		$5,034,692.31
Issued value of 300 shares of common stock issued in exchange for Class C convertible notes during the period from January 1 to December 16, 1937,		3,000.00
Reserve for contingencies, December 16, 1937,		43,172.44
Net income for the period from January 1 to December 16, 1937 (per summary of consolidated income),		634,433.09
Total,		$5,715,297.84
LESS — Par value of capital stock issued by Saco-Lowell Shops (New Company) to or for the account of the holders of all capital stock of the Old Company outstanding on December 16, 1937:		
Class A Convertible Preferred Stock (77,157 shares)	$1,543,140.00	
Common Stock (112,181 shares),	560,905.00	2,104,045.00
REMAINDER—Representing excess of book value of assets acquired from the Old Company over par value of capital stock issued therefor, and liabilities to which such assets were subject,		$3,611,252.84
PREMIUM ON CAPITAL STOCK SOLD FOR CASH (27,321 shares of Class B Convertible Preferred Stock and 27,321 shares of Common Stock sold in *units*),		218,568.00
PREMIUM ON 2500 SHARES OF COMMON STOCK (issued to employees of the Old Company pursuant to the "Plan"),		11,250.00
TOTAL — Paid-in surplus of the New Company and subsidiary companies at commencement of business, December 17, 1937 (as adjusted),		$3,841,070.84

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops (a Maine Corporation):

We have made an examination of the consolidated balance sheet of Saco-Lowell Shops (a Maine Corporation) and its subsidiaries at commencement of business, December 17, 1937, adjusted to give effect to certain transactions subsequently carried through in completion of "Reorganization Plan: Saco-Lowell Shops: October 29, 1937," and of the summary of consolidated income of Saco-Lowell Shops (predecessor Company, incorporated in Massachusetts) and its subsidiaries for the period from January 1 to December 16, 1937. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the Companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control. The physical quantities and condition of the inventories were certified to us by officials of the respective Companies.

In our opinion, based upon such examination, the accompanying consolidated balance sheet, with the notes thereon, the related summary of paid-in surplus, and the summary of consolidated income fairly present, in accordance with accepted principles of accounting consistently followed by the Companies, except as to the change in the basis upon which the provision for Federal surtax on undistributed profits for 1937 has been determined (to which reference is made in the consolidated balance sheet footnote), the financial condition of Saco-Lowell Shops (a Maine Corporation) and its subsidiaries at commencement of business, December 17, 1937, after giving effect as of that date to certain transactions subsequently carried through in completion of the "Reorganization Plan," and the results of operations of Saco-Lowell Shops (predecessor Company, incorporated in Massachusetts) and its subsidiaries for the period from January 1 to December 16, 1937.

Boston, February 11, 1938.

HASKINS & SELLS.

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SACO-LOWELL SHOPS

ANNUAL REPORT

CERTIFIED CONSOLIDATED BALANCE SHEET

AND

SUMMARIES OF CONSOLIDATED INCOME, EARNED SURPLUS, AND PAID-IN SURPLUS

NOVEMBER 30, 1939

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SACO-LOWELL SHOPS
AND WHOLLY-OWNED SUBSIDIARIES

TO THE STOCKHOLDERS:

For the fiscal year ended November 30, 1939, the net profit, after all charges but before dividends, was $335,674.44.

During the first half of the fiscal year just ended conditions in the cotton textile industry, the market for your Company's products, were not good. The number of spindle hours run was rather large, but stocks were also large, buying was on a short range basis, prices were at low levels, and operations generally were not profitable. By early Summer a slight tendency toward improvement began to manifest itself, but this tendency did not become really strong until, first the threat, and then the actual outbreak of war, caused a rise in commodity prices, including cotton, and a consequent advance in prices for fabricated cotton products. This advance started a buying movement in cotton goods which quickly gathered momentum and reached very large proportions by the end of the first week in September. The wave of buying, however, began to subside during the latter part of September and by the middle of October current buying was again below the current rate of production for the industry as a whole. It has remained there ever since except for occasional flurries of increased buying which have not been sustained.

Today many cotton mills are booked through the first quarter of 1940, and some well beyond that. Broadly speaking though, prices are still at moderate levels which are below, rather than above, the levels prevailing during the first half of 1937. Some mill executives believe that another sustained buying movement will start before long in sufficient strength to maintain the current high level of production and the prevailing moderate price levels. Others fear that before the end of the second quarter the market for cotton goods may again be surfeited and prices may fall again to the profitless levels current in the Winter and Spring of last year. Such, in brief, were the conditions which prevailed during the past year in the market for your Company's products.

Approximately one-half of the profit earned by your Company during the fiscal year just ended was earned in the last quarter. Sales volume was about 24% above the volume for the eleven months and fifteen days in the fiscal period ended November 30, 1938, but only about 68% of the volume for the eleven months and sixteen days in the fiscal period ended December 16, 1937. During the fiscal year the five-year serial loan maturing December 17, 1942, was reduced by $350,000, and stands today at $700,000. The interest rate on this loan since December 17 last is 3% per annum. The regular preferred dividends were paid throughout the year and one common dividend of 25¢ per share was paid on November 20 last. In addition to the regular quarterly preferred dividend payable on February 15 next, a further common dividend of 25¢ per share has been declared payable February 20 next.

As between the beginning and end of the year just closed, inventory and receivables have increased and cash has declined, reflecting the greater volume of production now prevailing. This tendency toward a decline in cash and an increase in inventory and receivables has continued since the end of the fiscal year. Like its customers, the cotton mills, your Company is assured of a comfortable rate of production well through the first quarter. Nevertheless, it should be remarked that buying of new machinery during the last two months has been light and your Company is in large measure operating on the substantial back-log of orders accumulated in the Autumn following the outbreak of the war.

The question is frequently asked as to what effect the widespread use of rayon is having on the cotton textile industry as a market for your Company's products. The trade publication

"Rayon Organon," a reliable source of information on the rayon industry, has compiled figures showing the total annual consumption in the United States of cotton, wool, rayon, silk, and linen (the principal fibers used in making yarn and fabrics) and the percentage which the consumption of each one bears to the total consumption of all five fibers. During the five-year period, 1930 to (but not including) 1935, the consumption of cotton ranged from a low of 82.2% to a high of 84.1% of the total consumption in pounds of all five fibers, with a maximum poundage of cotton consumed in this five-year period of 3,052,500,000 pounds in the year 1933. These percentage figures for 1939 are not yet available, but for the four-year period, 1935 to 1939, the percentages ranged from 78.4% in 1935 to 83% in 1937, with a maximum poundage of cotton used of 3,630,400,000 pounds in 1937, the highest in the history of the industry.

In 1920 the annual consumption of rayon in the United States was less than 9,000,000 pounds. This had increased by 1929 to 133,400,000 pounds, and in 1939, the year just closed, the consumption was 456,000,000 pounds (source — Rayon Organon). Continuous filament rayon (making up over three-quarters of the total rayon produced) does not require for its manufacture, preparatory and spinning machinery of the kind your Company makes. It does require twisting equipment of a type made by your Company. Stapled or cut rayon (which is cut into short lengths similar to but somewhat longer, on an average, than cotton fibers) is processed in much the same way as cotton is and requires the use of preparatory and spinning machinery, modified and adapted somewhat, but substantially the same as that used in processing cotton. This stapled rayon, roughly speaking, sells for about one-half the price of continuous filament rayon and its use has increased rapidly in recent years. Figures compiled by Rayon Organon show an increase from 6,000,000 pounds in 1935 to 100,000,000 pounds in 1939.

Under date of June 24, 1939, the United States Bureau of the Census issued the following statement:

> "The Director of the Census announces that 432,366 spindles in cotton mills were operated on spinning rayon fiber only during the month of April 1939, and 86,308 spindles on rayon fiber mixed with cotton. All of the cotton spinning mills were canvassed for the data, thus making available reliable information as to the extent of this activity. The spindles reported on rayon fiber only were not included in the total number of active cotton spindles, nor were the active hours for such spindles included in the total number of active cotton spindle hours.
>
> "In addition to the above some spindles in cotton mills were reported as spinning rayon and wool mixed, and some rayon and silk mixed. There were also upward of 100,000 spindles operating on rayon fiber in former cotton mills which have gone over entirely to the spinning of rayon."

The total number of cotton spinning spindles in place on April 30, 1939, was 25,680,020, of which 22,109,394 were active at some time during the month. It is clear, therefore, that the number of spindles operating on stapled rayon is still comparatively small considered as a percentage of the spindles operating on cotton. Likewise, it is also clear that the quantity of rayon consumed is still comparatively small considered in relation to the quantity of cotton consumed.

The conclusion to be drawn from this very brief survey is that rayon has become an important fiber in the textile industry. But it does not appear to have reduced appreciably the quantity of cotton actually consumed before rayon became important (cotton consumption in 1937 was the highest on record), although undoubtedly the industry would have consumed even more cotton if rayon had not displaced cotton to some extent. Moreover, it should be noted that since 1920 there has been a noticeable tendency toward a somewhat lower (*i.e.* coarser) average count of yarn spun and a consequent larger quantity of cotton consumed per spindle hour run for the industry as a whole. Final figures for spindle hours run in the year 1939 are not available at the time this report goes to press, but the forecast (with only December's figures lacking) would indicate that these 1939 figures will be not far below the figures for 1937, which were the highest in the last ten years, though not so high as in some years prior to 1930.

In short, having regard only for the experience to date and avoiding any hint of prophecy for the future, the cotton textile industry seems to be consuming about as much cotton and running not far from as many spindle hours as it ever did, although cotton consumption and spindle hours run would unquestionably be somewhat greater if rayon had not been introduced as a competing fiber. As already stated, the use of continuous filament rayon, which is over three-quarters of the total poundage of rayon produced, does not require the use of preparatory and spinning machinery of the kind your Company makes. To the extent, however, that stapled or cut rayon is used, and the use of this stapled fiber has increased very rapidly in the last five years, as is indicated by the figures previously given, the market for the products of your Company has not been adversely affected to any significant extent.

In conformity with the Company's charter, its Class B Convertible Preferred Stock was by appropriate action reclassified as of the opening of business on January 2, 1940, as Class A Convertible Preferred Stock, both classes becoming from that time identical in all respects. The Board of Directors recommends that at the Annual Meeting appropriate action be taken to omit from the class designation of the Company's Preferred Stock the words "Class A" to the end that thereafter the Company's outstanding shares of stock, other than Common Stock, shall be known simply as "Convertible Preferred Stock."

In accordance with the provision in the Reorganization Plan that the balance of the Company's authorized Common Stock not required under or issued pursuant to the Plan (*i.e.* 4,878 shares) should be available as determined by the stockholders for disposition for corporate purposes, the stockholders at their Annual Meeting held in February, 1939, authorized the Board of Directors to issue all or any part of said 4,878 shares to officers, executives, and employees of the Company for services rendered to the Company. In December, 1939, pursuant to action duly taken by the Board of Directors, 2,878 of said shares were issued in varying amounts to certain officers, executives and employees, including the President, as compensation for services rendered. The Company has entered into an employment contract with its President under which 1,000 Common shares were issued as aforesaid in December, 1939, and a further 2,000 Common shares may in the future be issuable for services as therein provided.

At the end of the Company's fiscal year, there remained outstanding only two scrip certificates (representing one share of Class A Convertible Preferred Stock). All other scrip had either been combined or had by its terms become void.

There are enclosed herewith the following:

(1) Balance Sheet and Summary of Consolidated Income prepared and certified by the Company's auditors, Haskins & Sells.

(2) Notice of the annual meeting of stockholders, to be held February 6, 1940.

(3) A form of proxy. Unless you plan to attend the annual meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

By order of the Directors,
David F. Edwards,
President.

January 23, 1940.

Note: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOV
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CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:			
Cash, on demand			$1,266,966.39
Notes and accounts receivable:			
Notes receivable — customers		$ 142,672.11	
Accounts receivable — customers		1,216,948.00	
Other accounts receivable and interest accrued on notes receivable		32,471.57	
Total notes and accounts receivable		$1,392,091.68	
Less reserves for doubtful notes and accounts and for allowances, adjustments, etc.		145,958.58	1,246,133.10
Inventories (not in excess of the lower of cost or market value)			1,635,878.19
Total current assets			$4,148,977.68
MISCELLANEOUS ASSETS:			
Notes and accounts receivable due from customers subsequent to November 30, 1940		$ 262,758.51	
Inventories of slow-moving and inactive repair parts, etc., less reserve of $122,925.46 for estimated losses thereon		77,401.98	
Deposits with factory mutual fire insurance companies		52,699.00	
Real estate mortgage notes receivable		1,702.00	
Miscellaneous securities (acquired in settlement of notes and accounts receivable)	$ 348,414.07		
Less reserve for depreciation of miscellaneous securities	318,826.57	29,587.50	424,148.99
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values):			
Operating properties		$3,276,672.98	
Non-operating properties		257,129.54	3,533,802.52
DEFERRED CHARGES:			
Prepaid expenses		$ 13,355.00	
Cash advances to employees for expenses, etc.		4,950.89	18,305.89
TOTAL ASSETS			$8,125,235.08

NOTE: The issued shares of class A convertible preferred and common stocks as
preferred stock and 1,317 shares of common stock, respectively, held by
of stock of Saco-Lowell Shops (a Massachusetts corporation, predecess
of the Company pursuant to said Massachusetts corporation's Reorga
433 second preferred shares — now exchangeable under said Reorgan
common stock of the Company, with cash adjustment for void scrip –
at November 30, 1939, appraisal proceedings were pending in respect
The issued shares of class A convertible preferred stock as shown in the a
scrip will become void and of no value on the last day of the fifteent
As of the opening of business on January 2, 1940, the Company's class B
from which date the two classes became in all respects identical.

LL SHOPS

in Maine)

Companies

EET, NOVEMBER 30, 1939

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Accounts payable — trade			$ 280,135.43
Customers' deposits and advance payments on sales contracts			69,143.99
Accrued liabilities:			
Federal income, Federal capital stock, social security, and State taxes		$ 172,742.07	
Payrolls, commissions, royalties, interest, additional compensation payable to officers and employees in common stock, etc.		174,925.83	347,667.90
Total current liabilities			$ 696,947.32
FIVE-YEAR SERIAL LOAN — BALANCE DUE WITHIN FIVE YEARS FROM DECEMBER 17, 1937 (interest at 4½% to December 17, 1939, 3% thereafter; annual retirement mandatory to extent of the greater of $150,000 or 20% of net annual earnings — minimum amount payable on December 17, 1940, $150,000.00, and $50,000.00 in addition thereto was paid on October 27, 1939)			700,000.00
CAPITAL STOCK AND SURPLUS:			
Capital Stock:			
Class A convertible preferred stock (authorized 77,157 shares, issued 77,145 shares — see footnote; par value $20 per share; entitled to annual cumulative dividend of $1 per share; entitled on liquidation to $25 per share, $1,928,625 until January 1, 1943, and thereafter to $22.50 per share, $1,735,762.50, in either case together with accumulated dividends)		$1,542,900.00	
Class B convertible preferred stock (authorized 56,802 shares — see footnote; par value $20 per share; entitled to annual cumulative dividend of $1 per share; issued, 27,321 shares; entitled on liquidation to $25 per share, $683,025, until January 1, 1943, and thereafter to $22.50 per share, $614,722.50, in either case together with accumulated dividends)		546,420.00	
Common stock (authorized 316,000 shares; par value $5 per share; reserved solely for conversion of outstanding convertible preferred stock, 107,198 shares; issued, 141,968 shares — see footnote)		709,840.00	
Total capital stock		$2,799,160.00	
Surplus:			
Paid-in surplus	$3,886,304.22		
Earned surplus	144,900.04	4,031,204.26	
Total capital stock and surplus		$6,830,364.26	
Less 2,746½ shares of class A convertible preferred stock and 2,747 shares of common stock held in treasury (at cost)		102,076.50	6,728,287.76
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$8,125,235.08

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n in the above consolidated balance sheet include 1,146 shares of class A convertible
Colony Trust Company, Clearing Agent, for the account of the holders of such shares
the Company) as were not on or prior to November 30, 1939, exchanged for stock
ion Plan. Of the unexchanged stock of said Massachusetts corporation, a total of
n Plan for 648 shares of class A convertible preferred stock and 648 shares of
y qualified for appraisal under Sec. 46, c. 156 General Laws of Massachusetts, and
id shares.
consolidated balance sheet include 1 share represented by fractional scrip, which
calendar month following the date thereof.
rtible preferred stock was duly reclassified as class A convertible preferred stock,

SACO-LOWELL SHOPS
And Subsidiary Companies

SUMMARIES OF CONSOLIDATED INCOME AND EARNED SURPLUS FOR YEAR ENDED NOVEMBER 30, 1939

SUMMARY OF CONSOLIDATED INCOME

NET OPERATING PROFIT BEFORE DEPRECIATION		$ 812,446.47
PROVISION FOR DEPRECIATION (not including depreciation on non-operating properties) — see footnote		153,819.01
NET OPERATING PROFIT		$ 658,627.46
ADD:		
Interest and dividends	$ 35,954.13	
Miscellaneous income credits	6,204.74	42,158.87
GROSS INCOME		$ 700,786.33
DEDUCT:		
Maintenance and other expenses of non-operating properties (including provision of $78,875.49 for depreciation), less rentals	$ 99,747.78	
Provision for Federal capital stock, social security, and State taxes	140,226.22	
Interest on five-year serial loan	39,745.83	
Miscellaneous income charges	4,217.50	283,937.33
NET INCOME BEFORE PROVISION FOR FEDERAL INCOME TAX		$ 416,849.00
PROVISION FOR FEDERAL INCOME TAX		81,174.56
NET INCOME FOR THE YEAR		$ 335,674.44

SUMMARY OF CONSOLIDATED EARNED SURPLUS

EARNED SURPLUS (*Deficit*) November 30, 1938			*$ 98,968.19*
ADDITIONS:			
Net income for the year			$ 335,674.44
Adjustment of depreciation on machinery and equipment for the year 1938 — see footnote			52,505.79
TOTAL			$ 289,212.04
DEDUCTIONS:			
Estimated additional Federal income tax and interest thereon, resulting from the above indicated adjustment of depreciation		$ 7,800.00	
Dividends paid:			
Class A convertible preferred stock	$ 74,385.75		
Class B convertible preferred stock	27,321.00		
Common stock	34,805.25	136,512.00	144,312.00
EARNED SURPLUS, November 30, 1939			$ 144,900.04

NOTE: During the year the basis of computing depreciation on machinery and equipment was changed to conform with that prescribed by Agents of the Bureau of Internal Revenue for the year 1938 in connection with the examination of the Federal income tax return for that year. As a result, the amount charged for depreciation for the year 1939 is approximately $55,000 less than would have been charged had the basis remained the same as that established by the Bureau and used by the Company's predecessor for years prior to 1938. The amount charged for depreciation for the period from December 17, 1937 to November 30, 1938 has been adjusted during the year 1939 in the amount of $52,505.79 through a credit to earned surplus.

SUMMARY OF CONSOLIDATED PAID-IN SURPLUS FOR THE YEAR ENDED NOVEMBER 30, 1939

BALANCE, November 30, 1938	$3,885,894.22
ADDITION—Par value of scrip certificates representing fractional interests in class A convertible preferred and common shares which, in accordance with the terms of issue, became void during the year	410.00
BALANCE, November 30, 1939	$3,886,304.22

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the balance sheet of Saco-Lowell Shops and its subsidiaries as of November 30, 1939 and the summaries of consolidated income, earned surplus, and paid-in surplus for the year ended that date, have reviewed the systems of internal control and the accounting procedures and have examined or tested accounting records and other supporting evidence by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related summaries of consolidated income, earned surplus, and paid-in surplus fairly present the financial condition of the companies at November 30, 1939 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles followed by the companies on a basis consistent with that of the preceding year except for the change in basis of computing depreciation on machinery and equipment to which reference is made in the footnote to the summaries of consolidated income and earned surplus.

HASKINS & SELLS.

Boston, January 20, 1940.

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SACO-LOWELL SHOPS

ANNUAL REPORT

CERTIFIED CONSOLIDATED BALANCE SHEET
AND
SUMMARIES OF CONSOLIDATED INCOME,
EARNED SURPLUS, AND PAID-IN SURPLUS

NOVEMBER 30, 1940

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SACO-LOWELL SHOPS

AND WHOLLY-OWNED SUBSIDIARIES

TO THE STOCKHOLDERS:

For the fiscal year ended November 30, 1940, your Company showed a net profit after all charges, but before dividends, of $883,896.54.

Activity in the cotton textile industry of the United States (the principal market for your Company's products) was in large volume during the year just ended. Cotton consumption for the calendar year 1940 was slightly in excess of 8,000,000 bales. The highest previous figure on record was less than 7,500,000 bales. Spindle hours run were approximately 98,000,000,000, the highest in the last ten years, but exceeded in some years prior to 1930. Notwithstanding the large volume of productive activity indicated by these figures, however, there was during 1940 no general and widespread advance in prices or wages in the cotton textile industry. Both prices and volume of production declined somewhat during the Spring from the level of January, 1940, and the curve of this decline did not flatten out and stabilize until June. In September prices began to advance again and this rise culminated toward the end of November and has remained fairly steady at the November level up to the present time. The manufacturing margin (that is the difference between selling price and the cost to the mill of raw cotton) did not during the year 1940 reach the level of the Autumn of 1939, and except on certain items, was well below the manufacturing margin level for 1937.

The reason for including this brief statistical review of activity in the cotton textile industry during the year 1940 is to make clear that as yet there has been no run-away market in this industry and no inflation in prices, wages, or manufacturing margin. In spite of the great publicity given to Government buying of cotton textiles (which by reliable estimates accounted for less than 5% of the year's production) the effect of such buying, which occurred largely during the second half of the year, was to increase volume somewhat, but it was absorbed without any general or notable change in the manufacturing margins on which the industry had been operating at the beginning of the year.

In other words, what this means is that the cotton textile industry, the market for your Company's products, is still sober, stable, and free from inflation in either prices or costs. When our customers buy machinery they buy for the same reasons and are governed by the same considerations as those which prevailed last year and the year before. They must buy at a fair price and show a return on their investment when they sell their own products in a competitive market. In short, there is no run-away demand for textile machinery at sharp advances in price and there is not likely to be. Rumors to this effect have circulated occasionally, but they were without foundation in fact.

The year just ended has been an excellent one judged by the standards of modest profits which prevail in this industry. It can also be said with a fair degree of certainty that the sales outlook for the current year is encouraging and the business on order and in immediate prospect would seem to give reasonable assurance of operations in satisfactory volume throughout the first half of the current year. Whenever your Company has an exceptionally good year, however, it is wise to emphasize the inescapable fact that this business is inherently one of widely fluctuating volume and correspondingly fluctuating profits. As an aid in appraising the Company's future, it is timely and appropriate in this report to review the earning record of the last ten years and express the results of each year not only in dollars, but also as a percentage of the capital invested in the business. The Profit and Loss figures used in the following table were taken from the Company's audited Annual Reports. The figure used as a basis for calculating the percentages shown, is the final figure given under the heading "Capital Stock and Surplus" in the audited Balance Sheet which accompanies this report.

RECORD OF EARNINGS

Fiscal Year	(Cents are omitted) Profit	% Profit to Invested Capital of $7,269,078
1931	*$485,951* Loss	*6.69%* Loss
1932	*761,001* Loss	*10.47%* Loss
1933	227,806	3.13%
1934	519,178	7.14%
1935	10,917	0.15%
1936	713,357	9.81%
1937	634,433	8.73%
1938	56,938	0.78%
1939	335,674	4.62%
1940	883,896	12.16%
FIVE YEAR AVERAGES		
1931–35	*97,810* Loss	*1.34%* Loss
1936–40	524,859	7.22%
TEN YEAR AVERAGE		
1931–40	213,524	2.94%

It is unmistakably clear from the foregoing table that earnings in the textile machinery business fluctuate widely from year to year. It is equally clear that the business is one of very modest profit margins considered in relation to the capital invested in the business. The average return, on the capital invested today, for the ten year period just ended was slightly less than 3%. For the five year period, 1936–40, the return averaged much better, being something over 7%, but even this improved return is very modest indeed for a business of this character, which is constantly and often violently contracting and expanding in volume and which must save and build up reserves from the earnings of good years to safeguard its organization and operations during the inevitable poor years. The five year period, 1931–35, included the worst of the depression years and showed an actual loss for the period. But the five year period that will follow the end of the present war in Europe may well prove to be equally disastrous to corporate earnings in general and to ours in particular, and your management must keep this possibility constantly in mind in all long range planning and policy-making decisions.

Enclosed herewith is a Balance Sheet and Consolidated Income Account prepared and certified by the Company's auditors, Haskins and Sells. Referring to the Balance Sheet (and using round figures), we find that your Company closed the year with a Cash Balance of $1,546,000, against which were Current Liabilities of $892,000. But further examination shows that the total combined balances of $1,454,000 for current and $250,000 for deferred Accounts and Notes Receivable, and $1,878,000 for current and $80,000 for inactive Inventory, are unusually small considering the volume of business done during the year, which volume was still sustained at the close of the year. The combined balances of these accounts was $3,664,000. At the close of the year 1937, a year of comparable sales volume, the corresponding total for Receivables and Inventory was $4,334,000. The difference of $670,000 is a fair measure of the extent to which the balances in Receivables and Inventory at the end of 1940 were below normal because of the exceptionally prompt payments by certain large accounts, and the difficulty of building up large stocks of materials of the kind we use because of the sudden nation-wide demand that developed during the Fall, and notwithstanding the fact that purchases were made by your Company during the Fall to cover requirements well into the second half of the year. When and if Receivables and Inventory should expand to their 1937 proportions, the Company's Cash Balance (excluding current earnings) would be reduced by about $670,000, and would not then exceed its Current Liabilities.

In other words, at the end of 1940, a considerable amount of your Company's working capital, normally in Receivables and Inventory, was temporarily stored in the Cash Account. It is necessary for your Directors to have all these facts clearly in mind in making decisions with respect to dividends. Also it is the considered judgment of your Directors that it is sound policy to try to maintain, so far as possible, a stable, moderate current quarterly rate of dividend, like 25¢ per share, on the Common Stock, and reserve until the last quarter, when the operating results for the year are pretty well determined, the declaration of a larger dividend if conditions and earnings warrant it at that time.

During 1940 the regular dividend of $1.00 per share was paid on the Convertible Preferred Stock, and a total of $2.00 per share was paid on the Common Stock. The total of dividends paid for the year was $446,349.25. In addition, a payment of $350,000 was made against the Serial Loan due December 17, 1942, leaving a balance of this Loan remaining to be paid of $350,000. It seemed to your Directors sensible and prudent to set up a "Reserve for Contingencies" of $250,000, and charge this amount against earnings for the year. This action was taken to safeguard your Company's financial structure against the many hazards and uncertainties which attend the operation of a manufacturing business like ours under the conditions prevailing today, which conditions will grow more, rather than less, difficult and hazardous as the year advances.

The Federal Income Tax for the fiscal year just ended was calculated under the provisions of the Revenue Act of 1938 which governed before the passage of the two Revenue Acts of 1940 now in effect. The Revenue Acts of 1940 apply to corporations whose taxable years began after December 31, 1939. Your Company's taxable year began December 1, 1939, and terminated November 30, 1940. In the opinion of our counsel and auditors, therefore, the earnings for the fiscal year just ended are not subject to the higher rates and excess profits taxes imposed by the new Acts. This piece of good fortune is only a fair and equitable offset to the severe penalties your Company suffered in the years 1936 and 1937 by reason of the heavy undistributed profits taxes imposed in those years because the large debt which then burdened your Company made it impracticable to distribute the substantial earnings of those years. In connection with this whole question of taxes, however, it is very important to note that if the earnings of your Company before Federal Income Taxes should be as large during the current fiscal year as they were in the fiscal year just ended, the Federal Income Tax calculated under the provisions of the new Acts would be approximately $500,000 or more than twice as much as they were for the year just ended.

The total dividend for the year of $2.00 per share on the Common Stock resulted in the conversion of 62,470 shares of Convertible Preferred Stock into Common Stock. During the year also 3,394 shares of Convertible Preferred, acquired in connection with the reorganization of your Company's capital structure, which took place in 1937, were sold, at private sale to purchasers in no way connected with the company, for the sum of $62,741.47, leaving 3,470 shares of Common still in the Company's treasury. Excluding treasury stock, there were on November 30, 1940, issued and outstanding 41,995 shares of Convertible Preferred Stock, and 203,846 shares of Common Stock. Under the employment contract between the Company and its President, as explained in the Annual Report of last year, 1,000 additional shares were issued in December, 1940, and a further 1,000 shares may in the future be issuable for services as therein provided. The Board of Directors recommends that at the Annual Meeting appropriate action be taken to cancel 29,494 shares of Convertible Preferred Stock authorized but not heretofore issued, and 62,470 shares of Convertible Preferred Stock recently converted into Common Stock, as explained above. This will leave only 41,995 shares of Convertible Preferred Stock authorized and outstanding.

In addition to the Balance Sheet and Summary of Consolidated Income prepared and certified by the Company's auditors, Haskins & Sells, to which reference has already been made, there are also enclosed herewith the following:

(1) Notice of the annual meeting of stockholders, to be held February 4, 1941.

(2) A form of proxy. Unless you plan to attend the Annual meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

By order of the Directors,

David F. Edwards,
President.

January 21, 1941.

Note: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOW
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CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash, on demand		$1,546,133.98
Notes and accounts receivable:		
Notes receivable — customers	$ 158,532.78	
Accounts receivable — customers	1,427,154.88	
Other accounts receivable and interest accrued on notes receivable	27,869.59	
Total notes and accounts receivable	$1,613,557.25	
Less reserves for doubtful notes and accounts and for allowances, adjustments, etc.	159,272.49	1,454,284.76
Inventories (not in excess of the lower of cost or market value)		1,878,847.46
Total current assets		$4,879,266.20
MISCELLANEOUS ASSETS:		
Notes and accounts receivable due from customers subsequent to November 30, 1941	$ 250,550.69	
Inventories of slow-moving and inactive repair parts, etc. — at estimated realizable value	80,936.06	
Deposits with factory mutual fire insurance companies	55,015.00	
Real estate mortgage notes receivable	1,406.00	
Miscellaneous securities (acquired in settlement of notes and accounts receivable) — at depreciated ledger values which are not in excess of market values	17,587.50	405,495.25
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values):		
Operating properties	$3,291,470.97	
Non-operating properties	171,129.05	3,462,600.02
DEFERRED CHARGES:		
Prepaid expenses	$ 8,053.35	
Cash advances to employees for expenses, etc.	6,558.09	14,611.44
TOTAL ASSETS		$8,761,972.91

LL SHOPS
in Maine)

Companies

HEET, NOVEMBER 30, 1940

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Accounts payable — trade			$ 231,008.85
Customers' deposits and advance payments on sales contracts			122,867.97
Accrued liabilities:			
Federal income, Federal capital stock, social security, and State taxes		$ 339,078.77	
Payrolls, commissions, royalties, interest, etc. (including additional compensation payable to President in common stock)		199,938.80	539,017.57
Total current liabilities			$ 892,894.39
FIVE-YEAR SERIAL LOAN — BALANCE DUE WITHIN FIVE YEARS FROM DECEMBER 17, 1937 (interest at 3%; annual retirement mandatory to extent of the greater of $150,000 or 20% of net annual earnings — payment of $350,000 made during current fiscal year exceeds minimum amount payable on December 17, 1941)			350,000.00
RESERVE FOR CONTINGENCIES			250,000.00
CAPITAL STOCK AND SURPLUS:			
Capital Stock:			
Convertible preferred stock (authorized 133,959 shares; issued and outstanding, 41,995 shares; par value $20 per share; entitled to annual cumulative dividend of $1 per share; entitled on liquidation to $25 per share, $1,049,875, until January 1, 1943, and thereafter to $22.50 per share, $944,887.50, in either case together with accumulated dividends; convertible share for share into common stock)		$ 839,900.00	
Common stock (authorized 316,000 shares; par value $5 per share; reserved solely for conversion of outstanding convertible preferred stock, 41,995 shares; issued, 207,316 shares)		1,036,580.00	
Total capital stock		$1,876,480.00	
Surplus:			
Paid-in surplus	$4,858,956.21		
Earned surplus	603,445.57	5,462,401.78	
Total capital stock and surplus		$7,338,881.78	
Less 3,470 shares of common stock held in treasury (at cost)		69,803.26	7,269,078.52
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$8,761,972.91

SACO-LOWELL SHOPS

And Subsidiary Companies

SUMMARY OF CONSOLIDATED INCOME FOR THE YEAR ENDED NOVEMBER 30, 1940

NET OPERATING PROFIT BEFORE DEPRECIATION		$1,788,218.93
PROVISION FOR DEPRECIATION (not including depreciation on non-operating properties)		156,054.33
NET OPERATING PROFIT		$1,632,164.60
ADD:		
Interest and dividends	$ 32,902.63	
Miscellaneous income credits	3,789.74	36,692.37
GROSS INCOME		$1,668,856.97
DEDUCT:		
Maintenance and other expenses of non-operating properties (including provision of $76,319.71 for depreciation), less rentals	$ 90,502.95	
Provision for Federal capital stock, social security, and State taxes	175,616.87	
Interest on five-year serial loan	17,879.14	
Miscellaneous income charges	4,177.25	288,176.21
NET INCOME BEFORE PROVISIONS FOR CONTINGENCIES AND FOR FEDERAL INCOME TAX		$1,380,680.76
PROVISION FOR CONTINGENCIES	$ 250,000.00	
PROVISION FOR FEDERAL INCOME TAX	246,784.22	496,784.22
NET INCOME FOR THE YEAR		$ 883,896.54

SUMMARY OF CONSOLIDATED EARNED SURPLUS FOR THE YEAR ENDED NOVEMBER 30, 1940

EARNED SURPLUS, November 30, 1939		$ 144,900.04
ADDITIONS:		
Net income for the year		883,896.54
Refund of local taxes and interest thereon (portion applicable to the period from December 17, 1937 to November 30, 1939)		20,998.24
TOTAL		$1,049,794.82
DEDUCTIONS:		
Dividends paid:		
Convertible preferred stock	$ 85,453.50	
Common stock	360,895.75	446,349.25
EARNED SURPLUS, November 30, 1940		$ 603,445.57

SUMMARY OF CONSOLIDATED PAID-IN SURPLUS FOR THE YEAR ENDED NOVEMBER 30, 1940

PAID-IN SURPLUS, November 30, 1939	$3,886,304.22
ADDITIONS:	
Excess of par value of convertible preferred stock over par value of common stock issued on conversion thereof	937,050.00
Excess of market value over par value of common stock issued in December, 1939, to officers and employees as additional compensation	17,268.00
Par value of scrip certificates representing fractional interests in convertible preferred shares which, in accordance with the terms of issue, became void during the year	20.00
Refund of local taxes and interest thereon (portion applicable to the period prior to December 17, 1937)	18,313.99
PAID-IN SURPLUS, November 30, 1940	$4,858,956.21

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the balance sheet of Saco-Lowell Shops and its subsidiaries as of November 30, 1940 and the summaries of consolidated income, earned surplus, and paid-in surplus for the year ended that date, have reviewed the systems of internal control and the accounting procedures and have examined or tested accounting records and other supporting evidence by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related summaries of consolidated income, earned surplus, and paid-in surplus fairly present the financial condition of the companies at November 30, 1940 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles followed by the companies on a basis consistent with that of the preceding year.

HASKINS & SELLS.

Boston, January 20, 1941.

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SACO-LOWELL SHOPS

ANNUAL REPORT

NOVEMBER 30, 1941

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SACO-LOWELL SHOPS
AND SUBSIDIARIES

TO THE STOCKHOLDERS:

For the fiscal year ended November 30, 1941, your Company showed a net profit after all charges, including a reserve of $900,000 for contingencies, but before dividends, of $949,478.28. Dividends paid during the fiscal year totaled $452,781 made up of $41,721.50 on the preferred and $411,059.50 or $2.00 per share on the common. A further dividend of $1.00 per share on the common was declared on December 22, and paid on December 30, 1941, from earnings of the fiscal year ended November 30, 1941.

The year just closed was one of exceptionally large volume. In fact, the volume was just about double that of 1938, which comparison illustrates one of the basic characteristics of this business that must never be lost sight of, namely, its highly fluctuating character. The stimulus of the rapidly developing Defense Program caused a steady expansion in the operations of the cotton textile industry and this, in turn, caused a steady increase in the demand for textile machinery during 1941. A marked increase in orders from South America also occurred.

Although your Company closed the year with a large volume of unfilled orders on its books, there is no certainty as to how many of these orders can be manufactured and shipped because of the acute shortage of critical materials, chiefly iron and steel, which are now strictly controlled by priorities. A considerable, but fluctuating, percentage of our orders carry priorities of some kind. There is ground for reasonable hope that materials can be obtained for these orders. With respect to the remainder that carry no priority, there is great uncertainty as to our ability to fill them because of the shortage of materials. The only new orders that can be accepted today are those which carry priorities high enough to provide reasonable assurance of our ability to obtain the materials required to manufacture them. In short, the business of your Company today is dominated by the war effort and the controls over essential materials made necessary by that effort.

As the intensity of the war effort increases, however, some evidence is beginning to accumulate in support of the view that considerable amounts of new textile machinery may continue to be required to enable our customers, the cotton mills, to meet the demands made upon them by the war program. Up to last Fall the general opinion in Washington seemed to be that the capacity of the cotton textile industry was so great and so varied that it could shoulder the increased war demand without much help from additional new machinery. More recently, though, this opinion has changed somewhat and it is possible, though by no means certain, that considerable amounts of new textile machinery may be authorized by the Federal control agencies and priorities issued to make possible their manufacture.

There is growing recognition of the fact that the textile machinery industry is relatively small. Under normal conditions its productive capacity is more than sufficient to take care of the needs of the textile industry. If, however, a very large part of its specialized productive capacity should be converted to the manufacture of ordnance items for example, and later it was found that the textile industry must have considerable amounts of new machinery to enable it to meet the demands of the war program, then a very awkward situation would exist. The management of your Company is doing all it can to obtain information as to what the probable requirements of textile machinery for the war program may be, in order that it may act wisely in making contracts to manufacture ordnance equipment.

All this is highly important in any consideration of the outlook for your Company's business during the coming year. At present, however, we don't know and are not yet able to find out with certainty what amounts of new textile machinery we may be permitted or required to build. Repair parts production, however, which is running in large volume (nearly 30% of our total business) will almost certainly continue without restriction or curtailment. All the Federal control agencies seem agreed on the policy that existing equipment of the textile industry must be maintained in good working order and kept adequately supplied with repair parts.

Because of this uncertainty as to how much new textile machinery will be required for the war effort and given priority on materials, and because of its earnest desire to cooperate in the most effective way in the war effort, the management of your Company has undertaken contracts to manufacture substantial amounts of ordnance equipment although still employing the greater part of its productive capacity in the manufacture of textile machinery. It should be stated at this point, however, that the operating results for 1941 do not reflect any profit on ordnance equipment because shipment of this equipment did not begin until after the close of the 1941 fiscal year.

By the end of the current year it is probable that your Company will be producing nothing except textile machinery required for the war effort and covered by allocations and priorities, repair parts for textile machinery, and war work of other kinds, chiefly, ordnance equipment. The manufacture of textile machinery for purely civilian needs is rapidly becoming impossible because of the shortage of materials.

In May of last year an election was held in the plants of your Company under the authority of the National Labor Relations Board to determine whether or not the Textile Workers Union of America, C.I.O., should be recognized as the exclusive collective bargaining agency for the employees of the Company. The vote was in favor of recognition of the Union. As the result of this election, a collective bargaining agreement was negotiated with the representatives of the Union and your Company is now operating under this agreement.

The difficulty of obtaining and holding an adequate supply of skilled labor during the past year has been very great and this situation is growing increasingly more difficult all the time. It has been necessary to employ large numbers of new and inexperienced people who must be trained for their jobs. This has added appreciably to our costs of operations, but all commercial metal working plants are having much the same experience. It is merely one of the inevitable and inescapable consequences of the widespread dislocation caused by the tremendous war effort and must be accepted cheerfully and ways and means contrived to deal with it.

During the year just closed two general advances of 10% each have been made in the wages paid to our employees. The first became effective on May 19, and the second on November 9. These advances have greatly increased our costs of production because wages make up so large a part of the total cost of our products. The cost of materials has also advanced considerably during the past year. Notwithstanding these advancing costs of production, the textile machinery industry has been notified that a ceiling will soon be placed on the prices of its products as a part of the general effort now being made by the Office of Price Administration in Washington to stabilize prices and keep them from getting out of hand. This, of course, is something that must be done if the terrible consequences of inflation are to be avoided. It is mentioned because it points clearly to one of the many hazards of operating a manufacturing business in wartime.

Your Company closed the year with note indebtedness of $350,000 due December 17, 1942. It is likely that additional borrowings may have to be made during the current year to provide the large amount of working capital that will be required to finance the considerable volume of ordnance work which the Company has contracted to make.

During the fiscal year just ended, all except a relatively small portion of the Company's property in Newton Upper Falls, Massachusetts, was sold. Although the sale resulted in no book loss because of previous write-downs of the value of the property as carried on the books of the Company, the price received was substantially less than the Federal tax basis of such property. The loss thus realized for Federal tax purposes has substantially reduced the estimated amount of taxes to be paid by the Company to the Federal Government on account of income for the fiscal year just ended.

The hazards, difficulties and uncertainties, attending the operation of a business of this character today, a few of which have been indicated in this report, are so numerous and so real that your

Directors have felt it wise and prudent to set up a substantial additional reserve for contingencies.

Your Directors announce with deep regret the death on May 1st, 1941, of Robert F. Herrick, Jr., a member of your Board of Directors for many years. His sudden death came as a great shock to his associates on the Board and his loss is keenly felt. To fill the vacancy on the Board, Mr. O. Kelley Anderson was elected a Director on October 6th, 1941.

Enclosed herewith are the Balance Sheet and Summaries of Consolidated Income, Earned Surplus and Paid-In Surplus, prepared and certified by the Company's auditors, Haskins & Sells, together with:

A Notice of the annual meeting of stockholders, to be held February 3, 1942. This contains a proposed amendment to the Company's by-laws which would make it possible to indemnify your Directors and Officers against expenses to which they might be put by reason of their having undertaken to act for you in the management of this Company. The adoption of such a by-law is in line with similar action taken by many other corporations and is designed to enable the Company to continue to secure and retain the services of competent and responsible persons in the management of the business. The Company has no knowledge of any action or suit now pending or threatened in which any Director or Officer of the Company may be involved and to which the proposed by-law would be applicable.

A form of proxy is also enclosed. Unless you plan to attend the Annual meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

By Order of the Directors,

David F. Edwards,
President.

January 21, 1942.

Note: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

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CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash, on demand		$ 1,048,673.49
Notes and accounts receivable:		
Notes receivable — customers	$ 268,435.78	
Accounts receivable — customers	2,736,075.81	
Other accounts receivable and interest accrued on notes receivable	20,362.69	
Total notes and accounts receivable	$3,024,874.28	
Less reserves for doubtful notes and accounts and for allowances, adjustments, etc.	189,112.48	2,835,761.80
Inventories (including ordnance contracts in process) (not in excess of the lower of cost or market value)		3,451,431.49
Total current assets		$ 7,335,866.78
MISCELLANEOUS ASSETS:		
Notes and accounts receivable due from customers subsequent to November 30, 1942	$ 395,774.70	
Deposits with factory mutual fire insurance companies	62,861.31	
Real estate mortgage notes receivable	76,210.00	
Miscellaneous securities (acquired in settlement of notes and accounts receivable) — at depreciated ledger values which are not in excess of market values	17,587.50	552,433.51
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		3,297,389.16
DEFERRED CHARGES:		
Prepaid expenses	$ 12,448.09	
Cash advances to employees for expenses, etc.	6,336.07	18,784.16
TOTAL ASSETS		$11,204,473.61

LL SHOPS
in Maine)

Companies

HEET, NOVEMBER 30, 1941

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Five-year serial loan — balance due December 17, 1942 (interest at 2%)			$ 350,000.00
Accounts payable — trade			756,989.94
Customers' advance payments on sales contracts			409,025.66
Accrued liabilities:			
Federal income, Federal capital stock, social security, and State taxes		$ 375,738.41	
Payrolls, commissions, royalties, interest, etc.		343,311.78	719,050.19
Total current liabilities			$ 2,235,065.79
RESERVE FOR CONTINGENCIES			1,150,000.00
CAPITAL STOCK AND SURPLUS:			
Capital Stock:			
Convertible preferred stock (authorized, 41,995 shares; issued and outstanding, 40,814 shares; par value $20 per share; entitled to annual cumulative dividend of $1 per share; entitled on liquidation to $25 per share, $1,020,350, until January 1, 1943, and thereafter to $22.50 per share, $918,315, in either case together with accumulated dividends; convertible share for share into common stock)		$ 816,280.00	
Common stock (authorized, 316,000 shares; par value $5 per share; reserved solely for conversion of outstanding convertible preferred stock, 40,814 shares; issued, 209,497 shares)		1,047,485.00	
Total capital stock		$1,863,765.00	
Surplus:			
Paid-in surplus	$4,916,062.03		
Earned surplus	1,109,384.05	6,025,446.08	
Total capital stock and surplus		$7,889,211.08	
Less 3,470 shares of common stock held in treasury (at cost)		69,803.26	7,819,407.82
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$11,204,473.61

SACO-LOWELL SHOPS

And Subsidiary Companies

SUMMARY OF CONSOLIDATED INCOME FOR THE YEAR ENDED NOVEMBER 30, 1941

NET OPERATING PROFIT BEFORE DEPRECIATION		$2,540,322.19
PROVISION FOR DEPRECIATION (not including depreciation on non-operating properties)		162,303.32
NET OPERATING PROFIT		$2,378,018.87
ADD:		
Interest and dividends	$ 29,403.95	
Miscellaneous income credits	5,443.64	34,847.59
GROSS INCOME		$2,412,866.46
DEDUCT:		
Maintenance and other expenses of non-operating properties (including provision of $75,019.87 for depreciation), less rentals	$ 77,648.99	
Provision for Federal capital stock, social security, and State taxes	242,051.01	
Interest on five-year serial loan	8,176.40	
Miscellaneous income charges	4,177.25	332,053.65
NET INCOME BEFORE PROVISIONS FOR CONTINGENCIES AND FOR FEDERAL INCOME TAX		$2,080,812.81
PROVISION FOR CONTINGENCIES	$ 900,000.00	
PROVISION FOR FEDERAL INCOME TAX	231,334.53	1,131,334.53
NET INCOME FOR THE YEAR		$ 949,478.28

SUMMARY OF CONSOLIDATED EARNED SURPLUS FOR THE YEAR ENDED NOVEMBER 30, 1941

EARNED SURPLUS, November 30, 1940		$ 603,445.57
ADDITIONS:		
Net income for the year		949,478.28
Refund of local taxes for the preceding year, and interest thereon		9,241.20
TOTAL		$1,562,165.05
DEDUCTIONS:		
Dividends paid:		
Convertible preferred stock	$ 41,721.50	
Common stock	411,059.50	452,781.00
EARNED SURPLUS, November 30, 1941		$1,109,384.05

SUMMARY OF CONSOLIDATED PAID-IN SURPLUS FOR THE YEAR ENDED NOVEMBER 30, 1941

PAID-IN SURPLUS, November 30, 1940	$4,858,956.21
ADDITIONS:	
Excess of par value of convertible preferred stock over par value of common stock issued on conversion thereof	17,715.00
Excess of market value over par value of common stock issued in December, 1940, to President as additional compensation	10,500.00
Excess of proceeds of sale of non-operating property in Newton, Massachusetts, over net book value of all non-operating properties	28,890.82
PAID-IN SURPLUS, November 30, 1941	$4,916,062.03

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 30, 1941 and the related summaries of consolidated income, consolidated earned surplus, and consolidated paid-in surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income, earned surplus, and paid-in surplus fairly present the financial condition of the companies at November 30, 1941 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS.

Boston, January 19, 1942.

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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

NOVEMBER 30th
1943

DIRECTORS OF SACO-LOWELL SHOPS

O. KELLEY ANDERSON
President and Trustee, Consolidated Investment Trust

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
President and Treasurer, Eastern Machinery Company

RALPH HORNBLOWER
Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Company

R. A. KETTLEY
Vice President

W. F. LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

To the Stockholders of

SACO-LOWELL SHOPS

OPERATING RESULTS AND RENEGOTIATION

For the fiscal year ended November 30, 1943, the Company showed a net profit after all charges of $704,927.95. However, this figure as to net profits can be only a careful but rather rough estimate at this time because the Company's earnings are subject to renegotiation, the results of which will determine both the amount of earnings before Federal Income Taxes and the amount of the Taxes themselves. A combined figure representing provision for Federal Income Taxes and Renegotiation Refund of $3,525,000 has been set up in arriving at the estimated figure of net earnings in the Income Statement, as reported above. The total of Renegotiation Refund and provision for Federal Income Taxes last year was $1,968,000, or $1,557,000 less than the corresponding figure this year.

In the fiscal year 1943, the regular dividend of $1.00 per share was paid on the Convertible Preferred Stock and a total dividend of $2.25 per share was paid on the Common Stock. During the year 17,469 shares of the Convertible Preferred Stock were converted into Common, leaving 23,028 shares of the Convertible Preferred still outstanding at the end of the fiscal year.

NATURE OF BUSINESS DONE

The fiscal year 1943 began with only a small volume of orders for textile machinery on the Company's books. Orders for repair parts were running in substantial volume but wartime restrictions on critical materials had reduced the flow of orders for new textile machinery to only a trickle of normal volume. In the Spring of 1943, however, this situation began to change because of the rapidly developing use of high tenacity rayon cord in the manufacture of heavy duty tires made from synthetic rubber. This heavy duty tire program required an increasing amount of heavy twisting

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equipment, and the Company was directed by War Production Board to undertake a large and expanding production program of heavy twisters. This program had already attained considerable volume at the close of the year and is still expanding.

This twisting equipment, plus the substantial volume of repair parts and some other miscellaneous orders for other types of textile machinery, made up about 28% of the total sales dollar volume for the year. In other words, the Company is still engaged to a considerable extent in the manufacture of its regular products and will probably continue to be so engaged throughout 1944. The remainder of the Company's production, about 72% of the total sales dollar volume, consisted of special war products used by the Armed Services.

FINANCIAL POSITION

The Company closed the year in a strong financial position. Liabilities for estimated Federal Income Taxes and Renegotiation Refund are very great, but have been provided for, in large part, through the purchase of government securities in the amount of $3,500,000.

Inventories are stated at values which are believed to be sound and conservative. However, we must face squarely the fact that today the greater part of our inventory values is in materials used in the manufacture of special war products in no way related to textile machinery. When and if the contracts for these war products are cancelled, these inventories must be liquidated in accordance with the contract termination procedures laid down by government authority. This is one of the major problems facing industry today, but it is encouraging to note that the government is keenly aware of its importance and is taking steps to deal with it in an orderly and uniform manner. At best, though, the liquidation of cancelled war contracts will require a considerable amount of time, effort, and negotiation to accomplish. In fact, the whole job of shifting from war production back to peacetime activity will almost certainly involve delays, expense, and some losses, which conservative management must try to foresee and make provision to meet as best it can.

During the fiscal year just ended, the Company sold at auction a considerable tract of vacant land in Lowell, Massachusetts. The sale of this property resulted in no book loss because of previous write-downs of the value of the property as carried on the books of the Company. This completes the sale of the Company's real estate holdings in Massachusetts.

THE OUTLOOK

Today the Company has a large volume of unfilled orders on its books. As already indicated, most of these orders are for war products going to the Armed Services. If these orders are not cancelled and the Company is permitted to fill them, we are assured of good volume for the year 1944. But, of course, cancellations and cut-backs may occur at any time regardless of whether or not the war ends. The changing needs of the battlefronts all over the world make necessary corresponding changes in the current production of war products to fit these changing needs.

If the contracts for the particular war products we are making should be cancelled or drastically cut back before the war ends, it isn't likely that they can be replaced immediately by orders for our regular products because, in all likelihood, the production of textile machinery will still be governed and limited by the wartime controls on critical materials. Whether they could be replaced by orders for other types of war products, no one can foretell. In any event a considerable period of time would elapse before the Company could retool, reorganize its facilities, and get into production in comparable volume on other types of war material. In the meantime, production would be drastically reduced and earnings would be reduced accordingly. These are the hazards inherent in war contracts from which there can be no escape.

Will wartime controls and restrictions on the manufacture of products for civilian use be continued after the war in Europe ends, and even after Japan is beaten? The best informed opinion seems to be that, with many modifications and progressive relaxation, these controls and restrictions will be continued for some period of time after the war ends. In other words, it is not likely that the Company will be completely free to buy all the material it wants, build up its inventories and expand its manufacture of textile machinery as rapidly as its orders permit when the war is over. Instead, it is likely that there will be a period of transition from war to peace economy during which wartime controls, in some diminishing degree, will continue to affect and limit the Company's operations.

There is every indication now that there will be a strong demand for textile machinery after the war. Many of our customers tell us that they want to buy substantial quantities of machinery as soon as we are able to make and deliver it. In this respect, the Company seems to be in a fortunate position so far as the post-war outlook is concerned, but this statement must be considered in connection with the problem of ceiling prices.

The prices at which the Company is selling its textile machinery products today were fixed by the Office of Price Administration as of October 1, 1941, or more than two years ago. During these two years our costs of manufacturing, like those of many other plants engaged actively in the war effort, have increased steadily until today profit on our textile machinery production has largely disappeared under ceiling prices.

Unchecked inflation would be a national disaster and appropriate controls, wisely administered, must be maintained to prevent it. Nevertheless, it is a simple, inescapable fact that if prices on the products made by a particular company remain fixed and costs increase, profits shrink and finally are wiped out when the increase in costs exceeds the margin of profit.

Right now this Company is experiencing no hardship under ceiling prices so far as its overall operations are concerned. So long as the greater part of its business is on special war products, not subject to ceiling prices, the Company is not suffering and the problem is not immediate and acute. But when the contracts for special war products are cancelled or drastically reduced, this problem of ceiling prices on our regular textile machinery products will become very acute indeed and will remain so until prices can be adjusted to compensate for increased costs.

ARMY-NAVY PRODUCTION AWARD

On February 13 of last year the "Army-Navy E" was awarded to the "Men and Women of Saco-Lowell Shops" for their "fine record in the production of war equipment." The Award was made a second time on September 25 because we had "continued to maintain the high standard" of performance which won the first Award. The letters signed by Robert P. Patterson, Under Secretary of War, notifying us of the Awards, are reproduced at the conclusion of this report.

These Awards are gratifying evidence as to the effective and successful character of the Company's contribution to the war effort and were made possible by the splendid cooperation and sustained hard work of everyone in the organization in the face of difficulties which at times were very great indeed. We take pride in reporting also that more than 1000 of the Company's employees have entered the Armed Services.

RETIREMENT PENSION PLAN

The Retirement Pension Plan, which was approved by the stockholders at the annual meeting of last year, was put into effect as of March 1, 1943. The response to it on the part of the employees concerned was unanimous and their appreciation of it was gratifying indeed.

Before the Plan was put into effect it had been submitted to the Bureau of Internal Revenue of the Treasury Department of the United States and a ruling secured that the Plan met the requirements of the Treasury Department relating to pension plans in respect of which the employers' contributions are deductible for the purposes of the Federal Income Tax Law. Later in 1943, after the Plan had been inaugurated and had been in operation for some months, the Treasury regulations applicable to Retirement Pension Plans were amended and question has been raised as to whether or not our plan conforms to the new amended regulations. We hope and believe that the original ruling by the Treasury Department with respect to our plan will stand particularly since, relying on this ruling, the Plan was put into effect and had been in operation for several months before the Treasury regulations were changed.

However, to safeguard the continuity of the Plan and avoid any possible interference with it through retroactive application of the amended Treasury regulations, there has been included in the Notice of the Annual Meeting a proposal to give to the Directors authority to make such changes or extensions of the Plan as they may deem necessary or advisable in connection with conforming the Plan to the amended Treasury regulations. While it is not possible now to state in figures the additional cost, if any, to the Company which may be involved in any such change or extension, it is possible that such changes or extensions, if made, may involve a fairly substantial increase in the net cost of the Plan in respect of both past and future service payments. However, if the original ruling of the Treasury Department stands, as we hope will be the case, no change in our Plan will be necessary.

GENERAL

Included herewith are the Balance Sheet and Summaries of Consolidated Income, Earned Surplus and Paid-In Surplus, prepared and certified by the Company's auditors, Haskins & Sells.

The Notice of the Annual Meeting of Stockholders and the proxy form were mailed to you on January 21, 1944. Unless you plan to attend the Annual Meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

DAVID F. EDWARDS,
President.

January 31, 1944.

NOTE: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS (Incorporate

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash, on demand		$ 914,609.58
United States Government obligations (at cost) and accrued interest:		
Certificates of Indebtedness, ⅞%, due April 1, 1944 (See Note)	$ 801,166.66	
Treasury Tax Savings Notes	2,712,786.00	3,513,952.66
Notes and accounts receivable:		
Notes receivable — customers	$ 34,218.38	
Accounts receivable — customers	3,143,450.45	
Other receivables	35,022.22	
Total notes and accounts receivable	$3,212,691.05	
Less reserves for doubtful notes and accounts and for allowances, adjustments, etc.	228,115.88	2,984,575.17
Inventories (including war contracts in process) (not in excess of the lower of cost or market value)		4,271,703.98
Total current assets		$11,684,841.39
EMPLOYEES' FUNDS HELD FOR PURCHASE OF WAR BONDS — Contra		41,008.56
MISCELLANEOUS ASSETS:		
Deposits with factory mutual fire insurance companies	$ 69,100.00	
Real estate mortgage notes receivable	46,452.34	
Estimated post-war refund of excess profits taxes	208,494.33	
Miscellaneous securities — at nominal value	1.00	324,047.67
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		3,412,105.44
DEFERRED CHARGES:		
Prepaid expenses	$ 38,053.70	
Cash advances to employees for expenses, etc.	12,149.10	50,202.80
TOTAL ASSETS		$15,512,205.86

NOTE: *At November 30, 1943, the Company had been found liable in an amou Court. An appeal had been taken and pending decision of the Appellate Court, t of any claims and costs which may be affirmed, $220,000 par value Uni charge to the Reserve for Contingencies the aggregate amount of claims and costs whi*

in Maine) and Subsidiary Companies

IEET, NOVEMBER 30, 1943

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Accounts payable — trade			$ 878,409.34
Customers' advance payments on sales contracts			12,604.50
Accrued liabilities:			
Federal income taxes and refunds resulting from renegotiation of war contracts		$3,803,684.64	
Federal capital stock, social security, and state taxes		121,527.30	
Payrolls, commissions, royalties, etc.		428,577.50	4,353,789.44
Total current liabilities			$ 5,244,803.28
EMPLOYEES' DEPOSITS FOR PURCHASE OF WAR BONDS — Contra			41,008.56
RESERVE FOR CONTINGENCIES (See Note)			1,750,000.00
CAPITAL STOCK AND SURPLUS:			
Capital Stock:			
Convertible preferred stock (authorized, 41,995 shares; issued and outstanding, 23,028 shares; par value $20 per share; entitled to annual cumulative dividend of $1 per share; entitled on liquidation to $22.50 per share, $518,130.00, together with accumulated dividends; convertible share for share into common stock)		$ 460,560.00	
Common stock (authorized, 316,000 shares; par value $5 per share; reserved solely for conversion of outstanding convertible preferred stock, 23,028 shares; issued, 228,283 shares)		1,141,415.00	
Total capital stock		$1,601,975.00	
Surplus:			
Paid-in surplus	$5,392,537.90		
Earned surplus	1,525,284.38	6,917,822.28	
Total capital stock and surplus		$8,519,797.28	
Less 1,820 shares of common stock held in treasury (at cost)		43,403.26	8,476,394.02
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$15,512,205.86

ipproximating $220,000 in certain patent litigation in a United States District Company has deposited with an Indemnity Company as surety for the payment States Certificates of Indebtedness. It is the intention of the Company to nay be required to be paid in the event of a decision unfavorable to the Company.

SACO-LOWELL SHOPS

and Subsidiary Companies

SUMMARY OF CONSOLIDATED INCOME

For the Year Ended November 30, 1943

NET OPERATING PROFIT BEFORE DEPRECIATION		$5,008,335.62
PROVISION FOR DEPRECIATION		177,995.47
NET OPERATING PROFIT		$4,830,340.15
ADD:		
Interest and dividends	$ 31,925.13	
Miscellaneous income credits	1,420.67	33,345.80
GROSS INCOME		$4,863,685.95
DEDUCT:		
Maintenance and other expenses of non-operating property, less rentals	$ 5,568.40	
Provision for Federal capital stock, social security, and state taxes	309,763.22	
Payment on account of employees' retirement pension plan (applicable to services for prior years and non-recurring)	314,208.88	
Miscellaneous income charges	4,217.50	633,758.00
NET INCOME BEFORE PROVISION FOR FEDERAL INCOME TAXES AND REFUNDS ON WAR CONTRACTS		$4,229,927.95
PROVISION FOR FEDERAL INCOME TAXES AND REFUNDS RESULTING FROM RENEGOTIATION OF WAR CONTRACTS		3,525,000.00
NET INCOME FOR THE YEAR		$ 704,927.95

SUMMARY OF CONSOLIDATED EARNED SURPLUS

For the Year Ended November 30, 1943

EARNED SURPLUS, November 30, 1942		$1,352,926.18
NET INCOME FOR THE YEAR		704,927.95
TOTAL		$2,057,854.13
DIVIDENDS PAID:		
Convertible preferred stock	$ 35,060.25	
Common stock	497,509.50	532,569.75
EARNED SURPLUS, November 30, 1943		$1,525,284.38

SACO-LOWELL SHOPS

and Subsidiary Companies

SUMMARY OF CONSOLIDATED PAID-IN SURPLUS

For the Year Ended November 30, 1943

PAID-IN SURPLUS, November 30, 1942	$5,105,244.55
ADDITIONS:	
Excess of par value of convertible preferred stock over par value of common stock issued on conversion thereof	262,035.00
Proceeds of sale of non-operating property which was carried at no value on books	100.00
Proceeds of sales of miscellaneous securities which were carried at nominal value on books	25,158.35
PAID-IN SURPLUS, November 30, 1943	$5,392,537.90

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

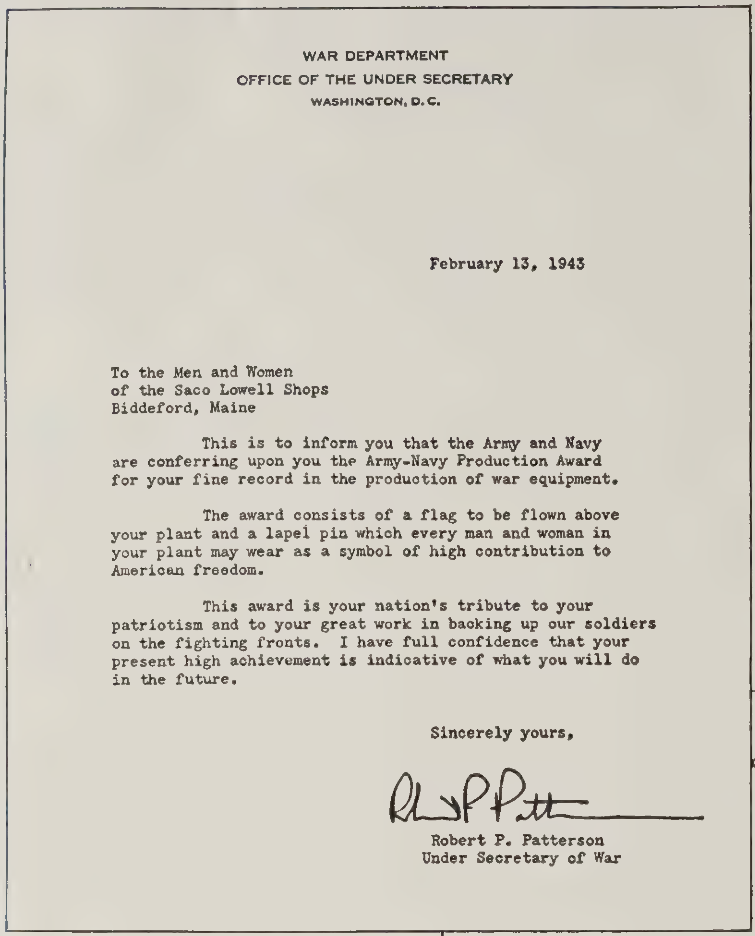
We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 30, 1943 and the related summaries of consolidated income, consolidated earned surplus, and consolidated paid-in surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income, earned surplus, and paid-in surplus fairly present the financial condition of the companies at November 30, 1943 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS.

Boston, January 24, 1944

SACO-LOWELL SHOPS EARN *the* ARMY-NAVY



WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

February 13, 1943

To the Men and Women
of the Saco Lowell Shops
Biddeford, Maine

This is to inform you that the Army and Navy are conferring upon you the Army-Navy Production Award for your fine record in the production of war equipment.

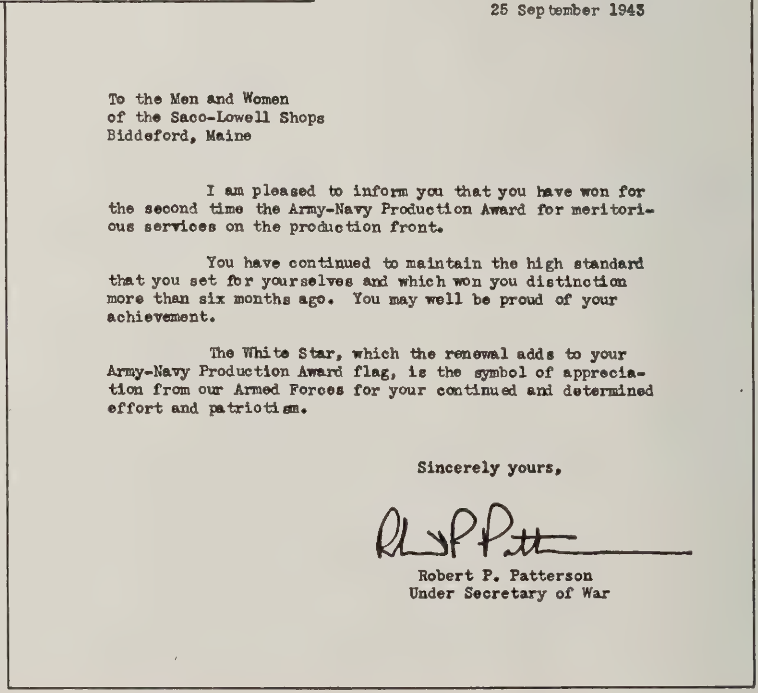
The award consists of a flag to be flown above your plant and a lapel pin which every man and woman in your plant may wear as a symbol of high contribution to American freedom.

This award is your nation's tribute to your patriotism and to your great work in backing up our soldiers on the fighting fronts. I have full confidence that your present high achievement is indicative of what you will do in the future.

Sincerely yours,

Robert P. Patterson
Under Secretary of War

CEREMONY
AT BIDDEFORD, MAINE
MARCH 16, 1943



WAR DEPARTMENT
F THE UNDER SECRETARY
WASHINGTON, D. C.

25 September 1943

To the Men and Women
of the Saco-Lowell Shops
Biddeford, Maine

I am pleased to inform you that you have won for the second time the Army-Navy Production Award for meritorious services on the production front.

You have continued to maintain the high standard that you set for yourselves and which won you distinction more than six months ago. You may well be proud of your achievement.

The White Star, which the renewal adds to your Army-Navy Production Award flag, is the symbol of appreciation from our Armed Forces for your continued and determined effort and patriotism.

Sincerely yours,

Robert P. Patterson
Under Secretary of War

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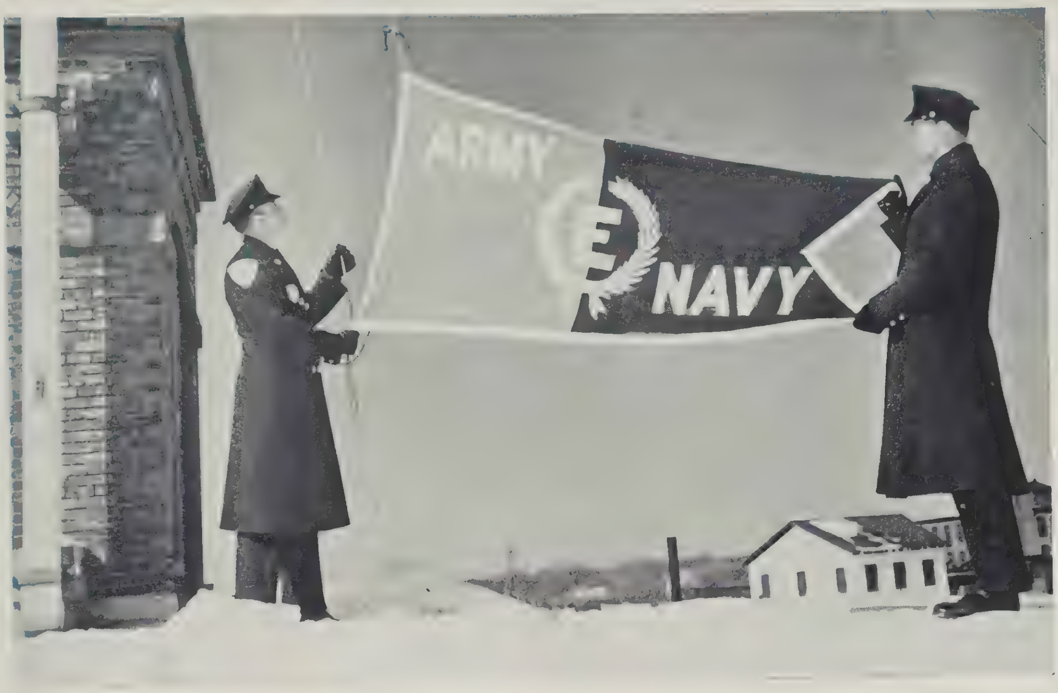
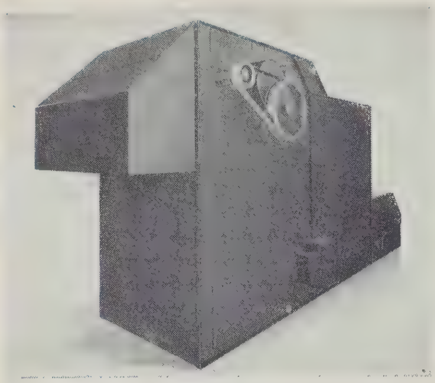
THE SYMBOL OF CONTINUING ACHIEVEMENT IS NOW ON THE **"E"** AWARD PENNANT

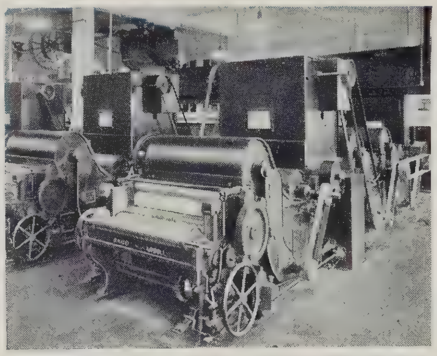


SACO-LOWELL AUXILIARY MILITARY POLICE RAISE THE "E" PENNANT ON MARCH 16, 1943

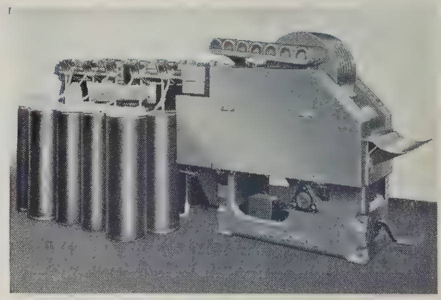
THE OPENING OF THE CEREMONIES



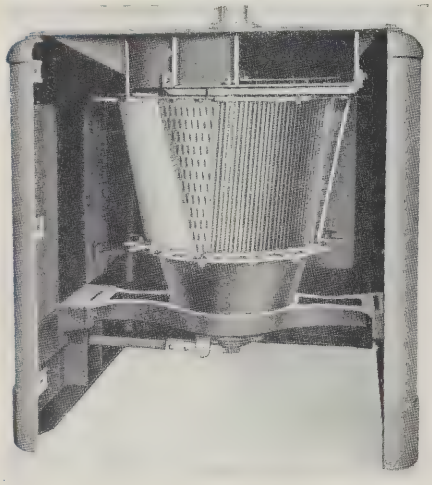
F-7 CLEANING AND BLENDING FEEDERS



ONE PROCESS PICKER WITH BLENDING RESERVE

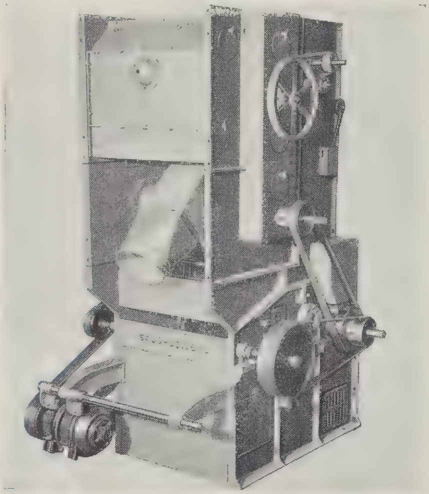


MODEL 37 LAP WINDER

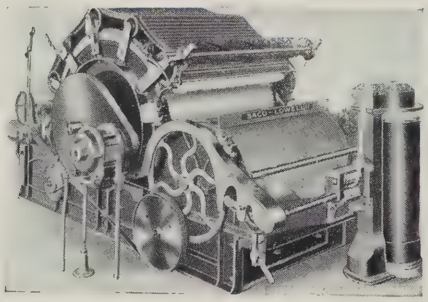


VERTICAL OPENER

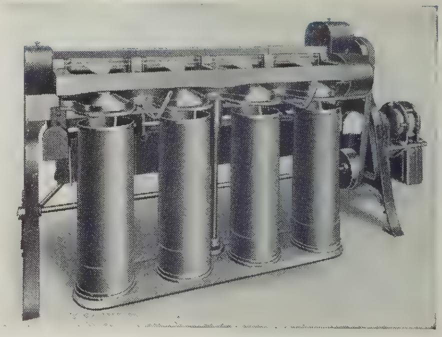
SACO-
Products for
Yarns
Cotton and
Fib



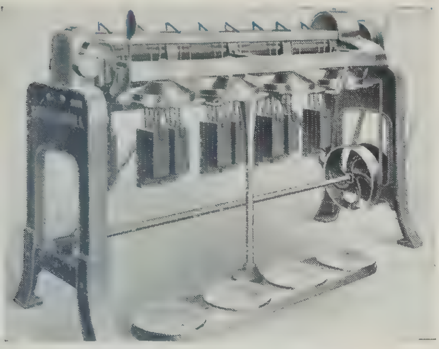
NO. 12 LATTICE OPENER AND CLEANER



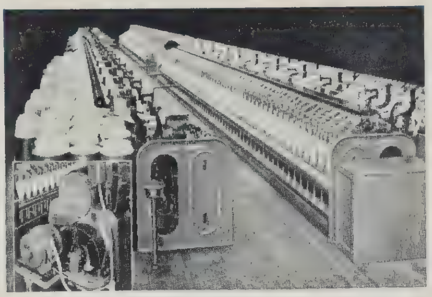
REVOLVING FLAT CARDS



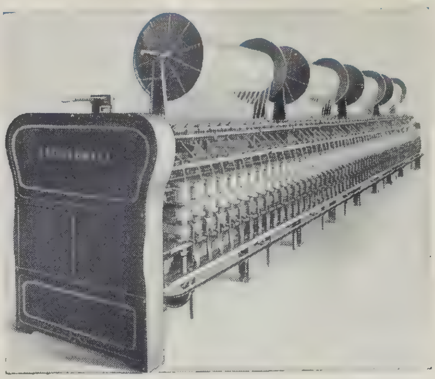
CONTROLLED DRAFT DRAWING FRAME



4-ROLL DRAWING FRAME



CONTROLLED DRAFT ROVING FRAME



TWISTERS

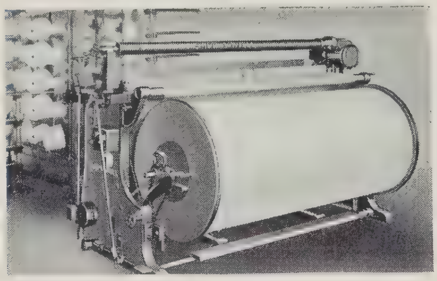
LOWELL

Manufacturing

from

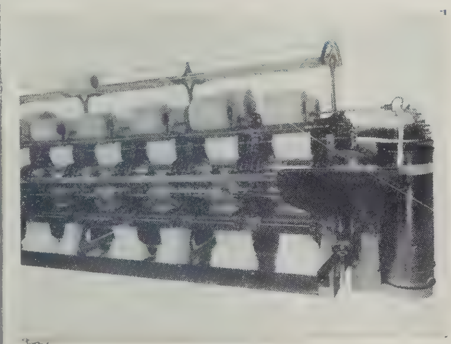
Artificial

res

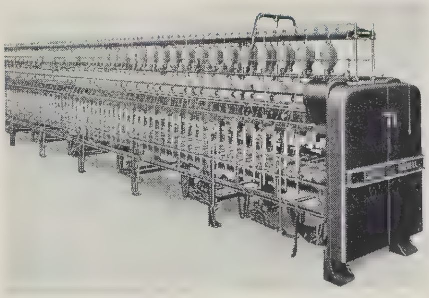


HIGH-SPEED WARPER

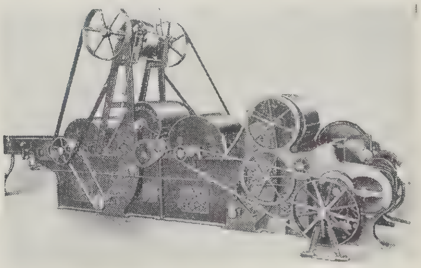
HIGH-SPEED SLASHER



COMBERS



MODEL 38 SPINNING FRAME



W-3 WASTE MACHINE

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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

NOVEMBER 30th
1945

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

ANNUAL REPORT

To the Stockholders for the Year
Ending November 30, 1945

Executive Offices . . . . 60 Batterymarch St., Boston, Mass.
Branches: Charlotte, N. C. . Greenville, S. C. . Atlanta, Ga.
Shops at Biddeford and Saco, Maine, and Pawtucket, R. I.

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Sa 14
1944/45

To the Stockholders of
SACO-LOWELL SHOPS

☆

The fiscal year ended November 30, 1945, was a year of painful reconversion, — dislocating and costly plant rearrangement, — heavy necessary expenditures for deferred maintenance, — crippling shortages of manpower and materials, particularly grey iron castings, — increased costs of production, including one wage advance, and inadequate ceiling prices on our products.

The result of operations for the year was a loss of $1,318,162.25. Regarding this loss and the claim we are entitled to make for its recovery under the carry-back provisions of the Federal Income Tax Laws, our Public Accountants, Haskins & Sells, have appended a footnote to the audited Balance Sheet accompanying this report which reads as follows:

"The Company will file a claim for refund of Federal income and excess profits taxes, based upon the carry-back provisions of the Internal Revenue Code, in an amount approximating $1,400,000, which amount is subject to final determination after the Treasury Department has completed its examination of the return for the year 1945. No recognition to any amount so recoverable is given in the above balance sheet or the accompanying summaries of consolidated loss and earned surplus."

Because a year like the one just closed was believed to be more or less inevitable as an aftermath of the war, a reserve of $1,750,000 was accumulated during the years following the outbreak of the war and has been carried in the Company's published Balance Sheets under the title "Reserve for Contingencies." The operating loss of $1,318,162.25 has been offset by a transfer of an equal amount from this reserve.

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COMPOSITION OF BUSINESS DONE

The Company's Annual Report for 1944 contained the following statement: "At the close of 1943 the Company had a large volume of unfilled orders for special war products on its books. Today, with negligible exceptions, these orders have been completed or cancelled." During the fiscal year 1945 less than 13% of the

Company's dollar sales volume consisted of special war products, mostly odds and ends of cancelled contracts and repair parts for special war products which the Company had been making for several years. Textile machinery products made up over 87% of the total dollar sales for the year.

It is interesting to note that the dollar volume of textile machinery products turned out in 1945 was in excess of that for the year 1940, in which year the Company showed a profit, before Federal Income Taxes, of over $1,100,000, as compared with an operating loss for the year just ended of $1,318,162.25. This comparison emphasizes the extent to which the abnormal operating conditions of the past year, particularly the greatly increased costs and the fixed ceiling prices, have affected the Company's earnings.

For nearly five months of the fiscal year 1945 the Company was billing its textile machinery products at ceiling prices fixed as of October 1, 1941. Between that date and the first half of 1945 our manufacturing costs had risen tremendously. Wage costs at the close of 1945 were more than 50% above those of 1941. To make clear the effect on earnings of this great advance in wages, it is only necessary to state that for many years prior to 1941 (before the war distorted normal operating conditions) our records show that it required between 40 cents and 50 cents of each sales dollar taken in to pay wages and salaries. This means that if the Company was operating on a 15% margin of profit before Federal Taxes, an advance of 30% in wages and salaries would just about wipe out the margin of profit. This being the case, it is painfully clear why the advance of over 50% in our wages, which has occurred since 1940, has had such a disastrous effect on our earnings.

LABOR CONDITIONS AND RELATIONS

The disturbed labor conditions which prevail throughout the country have made themselves felt in our own community and our own organization. Although no actual work stoppage occurred, one petition for a strike vote was filed with the National Labor Relations Board by our local Union during the year. A work stoppage was averted by negotiation and a wage adjustment, which adjustment affected the Company's operations from July 15th to the end of the fiscal year. Using as a basis the number of employees on the payroll at the end of the fiscal year, this wage adjustment has increased the Company's annual payroll by something over $500,000. Continuing demands by organized labor for wage advances at a time when costs have been rising steadily for four years and prices are still fixed by OPA, present a peculiarly difficult problem to the Management of this

Company because wages make up so large a part of total costs. The Collective Bargaining Agreement now in effect between the Company and the Union expires on June first of this year.

The acute shortage of manpower, pointed out and strongly emphasized in the Annual Report for 1944, continued throughout practically the whole of the fiscal year 1945. This shortage was felt particularly in our foundry operation, which was well below 50% of normal capacity for the year. In order to increase production, in spite of this crippling shortage of manpower and castings, it was necessary to purchase castings from outside foundries wherever they could be obtained, thus adding considerably to our costs of manufacture. During the last two months, however, the manpower situation has improved greatly and it is hoped that within a short while your Company's plants will be adequately manned and operating in a more balanced and efficient manner.

FINANCIAL CONDITION

As shown in the Balance Sheet the Company has outstanding today an even 250,000 shares of common stock. The preferred stock has been completely retired. The Company's financial condition remains strong. There are no current borrowings and no funded debt. Nevertheless, it must be recognized that the steadily expanding volume of production, so urgently needed to meet the current unprecedented demand for the Company's products, is absorbing an increasing amount of working capital. Capital expenditures in substantial amounts will also be required to meet the needs of the expanding production program.

Broadly speaking, however, it is the policy of the Company under present conditions to restrict capital expenditures to those projects that will improve, strengthen, and make more efficient the operations of existing plants within substantially the present limits of those plants, relying on subcontracting and the use of outside facilities in sound well-managed plants to provide the greatly expanded production temporarily needed to meet the present abnormal demand for textile machinery.

It must not be forgotten that until the United States entered the war the textile machinery builders, both in the United States and Great Britain (these two countries built most of the world's textile machinery) were fully able to take care of the needs of their customers. No longer ago than 1939, and even in 1940, the machinery builders in the United States, at least, had a considerable amount of idle capacity in their plants because orders for textile machinery were not in sufficiently large and balanced volume to keep their plants operating at full capacity. Our plants, both as to structures and as to equipment, are somewhat larger today than they were in 1941, a year of good volume and good earnings on textile machinery production alone. No considerable further expansion of our existing plants is now planned. Instead, as already stated, our effort will be directed toward improving the efficiency of our existing facilities, and acquiring the use of good, well-managed outside plant facilities by means of subcontracting arrangements. The current heavy worldwide demand for textile machinery may last for another three to five years. When it is satisfied, however, and the demand for textile machinery contracts within normal limits again, it is the belief of your Directors and Management that the Company should be free from over-expanded plants and excessive fixed capital investment.

THE OUTLOOK AND GENERAL COMMENT

Reference has already been made to the very heavy current demand for textile machinery. This demand comes not only from our customers in the United States, but from all over the world. It will last as long as the existing worldwide shortage of textile products, yarns and fabrics, continues. When the supply of yarns and fabrics in this country and throughout the world overtakes and balances the demand, then normal competitive conditions will gradually re-assert themselves among our customers and soon thereafter the textile machinery plants will also be back on a basis of normal competitive selling and moderate volume. It must be said again, however, that from all present indications it seems likely that for the next three to five years the demand for textile machinery will exceed the supply.

Mention has been made several times already in this report of the effect on our operations of the ceiling prices fixed by OPA. The original ceiling prices frozen as of October 1, 1941, were still in effect during the first five months of the fiscal year 1945. It was not until April 20 that the order was issued granting price adjustments in varying amounts on the many types of machines the Company makes. The very heavy losses we suffered on textile machinery up to May 1 were considerably lessened by the relief granted on April 20, but substantial losses have continued to the end of the fiscal year.

In 1941 — a good, profitable year free from the distorting influences of war work — our total payroll took 44 cents of our sales dollar. In 1945 our total payroll took 61 cents of our sales dollar. Even after making full allowance for the dislocations and inefficiencies of a reconversion year, like 1945, it is still convincingly clear that our greatly increased payroll is taking much too large a part of our OPA price sales dollar to permit us to recapture our moderate pre-war profit margin. We are working earnestly on this problem, the solution of which will no doubt be influenced greatly by changes in policy and procedures that may result from the settlement of the disputes in the steel, electrical, and motors industries. If the pronounced and nationwide trend toward higher wages and higher prices continues in 1946 our own operating costs will be still further increased thereby.

Plant re-arrangement is continuing in 1946 because the expanding production schedules make necessary further numerous changes in our operating plant layout. In particular, the developing subcontracting program makes necessary corresponding changes in the arrangement of manufacturing facilities in our own plants.

No prediction can be made now as to what may happen to our ceiling prices during 1946. Our production volume is slowly, but steadily, increasing and the efficiency of operation is beginning to show some improvement. However, long continued strikes in industries which supply us with essential materials would seriously retard or even completely wreck our operating program.

Operating results continue to be unsatisfactory, but are getting better. In short, the difficulties of reconversion will continue to affect our operations at least during the first half of the current year though in a diminishing degree. Earnings will continue unsatisfactory until a reasonable relationship between our greatly increased costs and our prices has been re-established.

ANNUAL MEETING

Included herewith are the Balance Sheet and Summaries of Consolidated Income, Earned Surplus and Paid-In Surplus, certified by the Company's auditors, Haskins & Sells.

A Notice of the Annual Meeting of Stockholders and a proxy form were mailed to you on February 4, 1946. Unless you plan to attend the Annual Meeting in person, — **You Are Urged to Send in Your Proxy Promptly.**

David F. Edwards,
President.

February 4, 1946

Note: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS (Incorpor

CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash, on demand		$ 874,741.14
United States Government obligations:		
Certificates of Indebtedness, ⅞%, at cost and accrued interest	$1,304,229.17	
Excess profits tax refund bonds	256,665.07	1,560,894.24
Notes and accounts receivable:		
Notes receivable — customers	$ 11,200.00	
Accounts receivable — customers	1,894,052.60	
Other receivables	1,814.48	
Total notes and accounts receivable	$1,907,067.08	
Less reserves for doubtful notes and accounts, and for allowances, adjustments, etc.	256,501.51	1,650,565.57
Inventories (not in excess of the lower of cost or market value)		3,344,076.42
Total current assets		$7,430,277.37
EMPLOYEES' FUNDS HELD FOR PURCHASE OF WAR BONDS — Contra		21,785.12
MISCELLANEOUS ASSETS:		
Deposits with factory mutual fire insurance companies	$ 71,723.37	
Real estate mortgage notes receivable	41,871.37	
Miscellaneous securities — at nominal value	12,501.00	126,095.74
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		3,780,144.59
DEFERRED CHARGES:		
Prepaid expenses	$ 30,750.17	
Cash advances to employees for expenses, etc.	14,022.54	44,772.71
TOTAL ASSETS		$11,403,075.53

NOTE: The Company will file a claim for refund of Federal
of the Internal Revenue Code, in an amount approximating
Treasury Department has completed its examination of the retu
given in the above balance sheet or the accompanying summarie

l in Maine) and Subsidiary Companies

HEET, NOVEMBER 30, 1945

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Accounts payable — trade			$ 744,786.12
Customers' advance payments on sales contracts			858,872.12
Accrued liabilities:			
Federal income taxes		$ 295,127.29	
Social security and state taxes		76,468.70	
Payrolls, commissions, royalties, etc.		575,015.43	946,611.42
Total current liabilities			$ 2,550,269.66
EMPLOYEES' DEPOSITS FOR PURCHASE OF WAR BONDS — Contra			21,785.12
RESERVE FOR CONTINGENCIES			431,837.75
CAPITAL STOCK AND SURPLUS:			
Common stock (authorized and outstanding, 250,000 shares; par value $5 per share)		$1,250,000.00	
Surplus:			
Paid-in surplus	$5,736,637.90		
Earned surplus (see footnote)	1,412,545.10	7,149,183.00	
Total capital stock and surplus			$ 8,399,183.00
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$11,403,075.53

ome and excess profits taxes, based upon the carry-back provisions
400,000, which amount is subject to final determination after the
or the year 1945. No recognition to any amount so recoverable is
consolidated loss and earned surplus.

SACO-LOWELL SHOPS

and Subsidiary Companies

SUMMARY OF CONSOLIDATED LOSS

For the Year Ended November 30, 1945

NET OPERATING LOSS BEFORE DEPRECIATION		$ 971,235.34
PROVISION FOR DEPRECIATION		191,861.31
NET OPERATING LOSS		$1,163 096.65
ADD:		
Interest paid	$ 1,804.51	
Provision for social security and state taxes, less unused accrual of Federal capital stock taxes	202,980.33	
Miscellaneous income charges	5,869.25	210,654.09
GROSS LOSS		$1,373,750.74
DEDUCT:		
Interest income	$ 42,188.98	
Miscellaneous income credits	21,399.51	63,588.49
NET LOSS BEFORE PROVISION FOR FEDERAL INCOME TAXES		$1,310,162.25
PROVISION FOR FEDERAL INCOME TAXES OF SUBSIDIARY COMPANY		8,000.00
NET LOSS FOR THE YEAR		$1,318,162.25
NET LOSS OFFSET BY TRANSFER FROM RESERVE FOR CONTINGENCIES		1,318,162.25

SUMMARY OF CONSOLIDATED EARNED SURPLUS

For the Year Ended November 30, 1945

EARNED SURPLUS, November 30, 1944			$1,797,856.16
CHARGES TO SURPLUS:			
Dividends Paid:			
Convertible preferred stock	$ 8.80		
Common stock	374,354.50	$374,363.30	
Premium on convertible preferred stock called for redemption (88 shares)		220.00	
Excess of cost over par value of common stock retired (1,223 shares), less gain on sales of treasury stock (597 shares)		10,727.76	385,311.06
EARNED SURPLUS, November 30, 1945			$1,412,545.10

Reference is made to the footnote appearing on the accompanying balance sheet.

SACO-LOWELL SHOPS

and Subsidiary Companies

SUMMARY OF CONSOLIDATED PAID-IN SURPLUS

For the Year Ended November 30, 1945

PAID-IN SURPLUS, November 30, 1944	$5,716,777.90
Add-Excess of par value of convertible preferred stock over par value of common stock issued on conversion thereof	19,860.00
PAID-IN SURPLUS, November 30, 1945	$5,736,637.90

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 30, 1945 and the related summaries of consolidated loss, consolidated earned surplus, and consolidated paid-in surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

In our opinion, the accompanying consolidated balance sheet, with the footnote thereon, and summaries of consolidated loss, earned surplus, and paid-in surplus fairly present the financial condition of the companies at November 30, 1945 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS.

BOSTON, January 30, 1946

DIRECTORS OF SACO-LOWELL SHOPS

O. KELLEY ANDERSON
President and Trustee, Consolidated Investment Trust

DAVID F. EDWARDS
President and Treasurer

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
President and Treasurer, Eastern Machinery Company

RALPH HORNBLOWER
Hornblower & Weeks

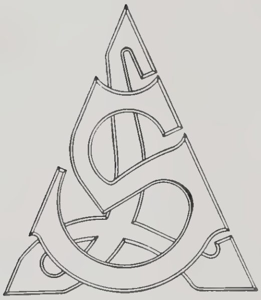
DAVID H. HOWIE
Vice President, Fiduciary Trust Company

R. A. KETTLEY
Vice President

W. F. LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum



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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

NOVEMBER 30th
1947

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

ANNUAL REPORT

To the Stockholders for the Year
Ending November 30, 1947

Executive Offices . . . . 60 Batterymarch St., Boston, Mass.
Branches: Charlotte, N. C. . Greenville, S. C. . Atlanta, Ga.
Shops at Biddeford, Saco, and Portland, Maine, and Pawtucket, R. I.

MAR 30 1948

To the Stockholders of

SACO-LOWELL SHOPS

☆

For the fiscal year ended November 30, 1947, the net profit transferred to surplus after all charges was $3,017,502.13 which was approximately $12.00 per share, of which $4.00 per share was paid in dividends. The remaining earnings were retained to enable the Company to handle the greatly increased physical and dollar volume of business and to pay for urgently needed improvements in plant, equipment and operating methods. Before Federal Income Taxes, but after all other charges, the profit was $5,517,502.13. These earnings are substantial and satisfactory and are in pleasing contrast to the considerable operating loss of 1945 and the meagre earnings of 1946.

MANUFACTURING

Manufacturing operations showed marked improvement during the year just closed, in spite of continuing shortages of pig iron, foundry scrap, and certain types of steel, notably sheet and strip. The effect of these shortages is to hold our overall production to a lower level than would otherwise be possible if the supply of metals were completely adequate for our needs. In spite of this shortage handicap, however, the tonnage of products produced and shipped was about 50% greater than in the previous year and should show further improvement during the current year, provided allocation controls do not restrict our supply of metals, and provided strikes do not occur in basic industries, like steel, on which we are dependent for materials essential in our operations. The interdependence of modern industry is very great indeed and the operations of any one industry can be badly hampered if crippling strikes occur in other industries on which it is dependent for supplies of essential materials.

In 1941, before the United States entered the Second World War, most industries were operating with fairly good productivity per man hour, with moderate overhead, and with management giving close, careful attention to economy and operating costs. Management generally was economy-minded, and acutely aware of the need for keeping expenses under close control because the low volume of business and the hard competitive conditions that prevailed during the decade 1930 to 1940 had made economy and efficiency in industry the price of survival. Then the war came and most industries found themselves caught up in the tremendous national effort to win the war by increasing production. As the drive for production went on emphasis on economy and lower costs gradually lessened, overhead charges of all kinds steadily increased, and operating efficiency declined, as measured in terms of productivity per man hour and unit cost of product.

When the war ended many industries, particularly those making durable goods as we do, found themselves faced with a tremendous pent-up demand for their products, and under the necessity of expanding their production of peacetime products as rapidly as possible to meet this heavy and insistent demand. Again the drive for production was on and again considerations of economy and low costs were subordinated, in some measure and in varying degrees, to the need for increasing production as quickly as possible. As a result, most heavy goods industries today are operating on too high a cost level in relation to their price level to permit them to make reasonable profits when the present abnormal volume of sales and production returns to normal. In other words, to use a term having approximate but not precise meaning, the "break even point" today is considerably above what it was in the decade 1930 to 1940, and although most sound companies now are showing good, and even large, earnings, these earnings, expressed as a percentage of the sales dollar, are not high, and when volume begins to contract to normal proportions, the high "break even point" can soon be reached and earnings may shrink rapidly or vanish entirely, — unless lower costs can be restored by reduced overhead, strict economy, high productivity, and greater operating efficiency throughout all departments. The "break even point" of this Company, calculated in terms of physical volume, is well above what it was in 1939. In fact the earnings as late as the year 1941, expressed as a percentage of the sales dollar, were higher than in 1947. Wages alone have more than doubled and all other costs have increased greatly. When volume of business falls off from the present abnormally high level and operations contract, the high "break even point" will cause a rapid shrinkage in profits as sales decline, — unless, and to the extent that, the "break even point" can be lowered.

The management of your Company has this situation and all of its disturbing implications constantly in mind and is trying by all reasonable means to prepare for it and to be ready to meet it as effectively as possible. Such preparation and such action are particularly important and necessary in the textile machinery business which has always been, and probably always will be, a business of wide fluctuations in volume. The record is unmistakably clear on this point and must always guide and influence our thinking and planning for the future. Accordingly, the management of your Company is now engaged in developing a carefully considered program designed to improve operating efficiency and lower costs of production, and every effort is being made now, and will continue to be made, to carry out this program and make it effective in a practical operating sense.

As a part of this effort, during the past two years, substantial expenditures have been made to improve plant facilities, — structures, equipment and tools. There has been no significant increase in plant floor area, but existing structures have been rearranged and strengthened to make possible more efficient utilization of them. The Company's expenditures for capital account alone in 1947 were about $1,300,000 and in 1946 about $1,200,000 a total of $2,500,000 in the last two years. Liberal expenditures have been made for modern equipment and tools of all kinds. Substantial amounts have also been spent on deferred maintenance and repairs. This program of improvement of physical plant and facilities is now roughly about two-thirds completed, though changing needs will require corresponding changes in the program from time to time. Of course it must be understood that in a business of this size and complexity, using over 3,500 power-driven tools, it will always be necessary to spend considerable sums annually for better tools and equipment of all kinds. Replacements necessary to maintain even existing levels of operating efficiency will always require substantial expenditures each year.

But the program for increasing efficiency and lowering costs is not limited to making expenditures for better tools and physical facilities alone. The organization has been strengthened at many points by the redistribution of personnel and the induction of new personnel where required to meet special and urgent needs. Better operating procedures and practices, requiring substantial cash outlays, are being developed to make possible more accurate scheduling of production, closer control of inventory, more accurate and serviceable operating and cost figures, better methods of incentive wage payment, etc. When these improved procedures, controls and methods are installed and working effectively, they should have an unmistakable effect on the overall efficiency of our manufacturing operations and on the costs of our products, and this should put us in a better position to meet the situation that will be created by the inevitable shrinkage of the present abnormal volume of business when it comes. By the end of 1948, the total expenditures for improving physical facilities and operating methods made since the end of the war will amount to over $1000 for each of the more than 5000 employees on the payroll as of today.

One of the most valuable assets the Company possesses in dealing with its current and future problems is the fine morale and the steadily increasing sense of good teamwork and well coordinated effort on the part of its supervisory personnel.

LABOR RELATIONS

Good labor relations are just as important in the efficient operation of an industrial plant today as are good tools and good operating procedures. A strike, resulting in a complete shut-down is, of course, a grave misfortune for the employees, the Company, the community, and often for the customers who desperately need the Company's product. But equally unfortunate, and perhaps even worse in their accumulated effects because they may go on year after year, are occasional minor but recurring work stoppages, lack of good order and work discipline, failure to do a fair day's work on the part of considerable numbers of employees, excessive absenteeism, and a generally careless, irresponsible, and indifferent attitude toward the job. All these can disrupt and slow down operations in countless minor ways which are massive in their aggregate effect on the whole plant operation and can break the rhythm and balance of productive effort, reduce output, increase costs, and weaken the Company's competitive position and its ability to serve its customers efficiently, get orders, maintain employment, and pay good wages. These factors can be just as demoralizing and harmful to efficient operation and low costs as are poor tools, bad methods, and shortages of materials.

To achieve and maintain a high level of operating efficiency, a plant like Saco-Lowell Shops must have fair-minded, well-ordered cooperation and good teamwork between management and union leadership. This kind of teamwork and cooperation is absolutely essential in any company that expects to keep itself in a strong competitive position and be able to maintain employment and meet the problems of the future.

During the past year labor relations in our plants were harmonious and there were no strikes. By the end of the year wage increases granted and the cost of fringe adjustments, like paid holidays, health and accident insurance, etc., calculated on the basis of the payroll as it was running in November last, added about $1,900,000 to the annual payroll. A further increase just made effective January 5th last has added about $1,400,000 more to the annual payroll, a total in the last fourteen months of $3,300,000. These figures give a clear indication of the tremendous impact of wage increases on the earning power of the Company and the imperative need for a high level of operating efficiency and productivity to make possible the continued payment of these increased wages.

A new Collective Bargaining Agreement running to March 15, 1950, with a provision for wage reopening in January 1949, has just been negotiated. Management hopes and believes that this contract provides a sound basis on which the Company can operate with freedom from labor disturbances and with a steadily rising level of operating efficiency throughout the next two years, thus safeguarding the best interests of the employees, the stockholders, the Company's customers, and the community.

FINANCIAL

The Company's financial condition is excellent, and every effort should be made to keep it that way against the day when the present inflated volume of business will decline sharply. As already explained, substantial expenditures have been made and will continue to be made throughout the current year to improve plant, equipment, and operating procedures, and thus raise the level of productive efficiency. To make sure that this improvement program could be financed without strain on current cash resources, arrangements were made last May for a stand-by credit of $1,500,000, good until May 1, 1949, against which borrowings can be made for a period of five years. Thus far, it has not been necessary to draw against this credit. A current short term loan of $1,500,000 matures March 1 next and may be renewed, at least in part. This loan is less than the amount by which receivables increased during the fiscal year ended November 30 last. The cash position shows improvement since the last annual statement, but it must be remembered that the working cash capital required to handle the current large volume of business is, of course, very much greater than formerly, and during 1948 also the Company must pay out in cash about $2,500,000 in Federal Income Taxes on 1947 earnings.

Receivables were up at the end of the year by more than $1,800,000, reflecting the marked increase in production and shipments. As might be expected in a period of increased volume of business and rising prices and wages, inventory increased somewhat. The surplus of current assets over current liabilities shows an increase of something over $1,700,000, notwithstanding dividend payments for the year totaling $1,000,000. Because of the great increase in the cost of replacing equipment an additional special reserve of $350,000 has been set up. Reserve for contingencies has also been increased to $900,000 as a safeguard against the hazards and uncertainties that attend the period of marked inflation through which we are now passing. Altogether, it may be said that the Company's financial condition has been strengthened during the fiscal year just ended and this has been accomplished without additional borrowing by following the prudent course of keeping a substantial part of the current earnings in the business.

SALES AND OUTLOOK

The unfilled orders on hand at the end of the year were somewhat greater than at the beginning notwithstanding heavy shipments during the year. As yet, there is no immediate or significant indication of a slackening in the demand for textile machinery and the outlook for new business continues good, at least for the first half of the current year. Our customers are making substantial earnings and are using them, in part, to replace worn out machinery and in some instances to expand capacity. The tremendous increase in wages in the textile industry during the last few years has enhanced and emphasized strongly the value of new machinery as a means of holding down costs. This emphasis on the value of modern machinery will continue and become even greater as volume begins to contract and competition in the textile industry again becomes keen and margins narrow.

On the other hand, it should be said that international tension, more stringent exchange restrictions and the worldwide dollar shortage are beginning to make themselves felt in many of our foreign markets and may before long have a retarding influence on our foreign shipments in spite of the high essentiality of our product. Moreover, production of textile machinery is reviving in Great Britain and in Europe, and as time goes on will no doubt approach pre-war volume with consequent increased competition for us from foreign makers. At least two, and possibly three, companies are being formed in India to manufacture textile machinery. While it is not likely that their production will be available in substantial quantities for several years, by that time the demand for textile machinery will probably be contracting to normal volume and their production will intensify competition.

At the time this report in written, all the evidence now available seems to point to another good year in 1948, provided we can get an adequate supply of metal, and provided there are no crippling strikes that will create acute shortages of other products, like electrical equipment for example, which would make it impossible for us to finish and erect complete machines. Saco-Lowell makes about thirty different types of complete machines. These machines, with some exceptions, cannot be shipped and erected until they are complete and ready for operation, which means that many types of products, not made by the Company, must be obtained and incorporated in the machines before they can be operated. A machine may be 95% complete on our assembly floor, but it is of no use to the customer who buys it until it is 100% complete and ready to operate. This characteristic of our business makes us very dependent upon our sources of supply for many types of products which we do not make ourselves, and therefore, makes us peculiarly sensitive to strikes and shortages in the industries which supply us with the products we require to make complete machines. By and large though, and in spite of these difficulties and uncertainties, the overall outlook for 1948 appears to be good at present.

ANNUAL MEETING

Included herewith are the Consolidated Balance Sheet and Summaries of Consolidated Income and Earned Surplus, certified by the Company's auditors, Haskins & Sells.

A Notice of the Annual Meeting of Stockholders and a proxy form were mailed to you on February 6, 1948. As you will see in the Notice, the stockholders will be asked to consider and act upon the matter of increasing the capital stock of the Company from $1,250,000 (represented by 250,000 shares of Common Stock of the par value of $5 each) to $3,000,000 (represented by 600,000 shares of Common Stock of the par value of $5 each) and of granting to the Board of Directors of the Company authority to issue all or any part of the increased capital stock. At the present time the Management does not have in mind any definite plans with respect to the issuance of any part of the increased capital stock if authorized by the stockholders. It is the feeling of the Management, however, that it is desirable that authorized but unissued capital stock in the amount indicated be available for issuance by the Board of Directors at any time when the Board of Directors determines such issuance, by way of stock dividend or otherwise, to be in the interest of the Company.

As you will also see in the Notice of the Annual Meeting stockholders will be asked to consider and act on the matter of authorizing the Board of Directors to make changes in the Company's Retirement Pension Plan. At the present time, in line with action which we understand is being taken by many companies, a review is being made as to the adequacy of the Company's Retirement Pension Plan in the light of the substantial increase in living costs which has occurred since the plan was inaugurated. No conclusions have as yet been arrived at, but in order that the Board of Directors shall be in a position to make changes in the plan, should such changes ultimately appear desirable, the matter of granting authority to make such changes is being brought before the stockholders. It should be noted that any increase in Past Service Benefits would be paid for entirely in the year in which it was made effective and would not be a continuing obligation of the Company.

Unless you plan to attend the Annual Meeting in person YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

DAVID F. EDWARDS,
President

February 6, 1948

NOTE: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS (Incorpor

CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash, on demand		$ 3,753,259.83
United States Certificates of Indebtedness, at cost and accrued interest		2,470,588.03
Accounts receivable:		
Customers	$5,209,245.54	
Other	11,438.02	
Total accounts receivable	$5,220,683.56	
Less reserves for doubtful accounts and for allowances, adjustments, etc.	271,775.42	4,948,908.14
Inventories (not in excess of the lower of cost or market value)		5,588,830.82
Total current assets		$16,761,586.82
EMPLOYEES' FUNDS HELD FOR PURCHASE OF SAVINGS BONDS—Contra		21,169.50
MISCELLANEOUS ASSETS:		
Deposits with factory mutual fire insurance companies	$ 185,357.76	
Real estate mortgage note receivable	36,909.50	
Miscellaneous securities	12,501.00	234,768.26
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		5,717,062.71
DEFERRED CHARGES:		
Prepaid expenses	$ 47,888.26	
Cash advances to employees for expenses, etc.	28,966.41	76,854.67
TOTAL ASSETS		$22,811,441.96

d in Maine) and Subsidiary Companies

HEET, NOVEMBER 30, 1947

LIABILITIES, CAPITAL, AND SURPLUS

CURRENT LIABILITIES:			
Note payable to bank, due March 1, 1948, interest 1½%			$ 1,500,000.00
Accounts payable — trade			1,434,937.13
Customers' advance payments on sales contracts			3,148,450.07
Accrued liabilities:			
Federal income taxes		$ 2,625,706.30	
Social security and state taxes		101,515.75	
Payrolls, commissions, royalties, etc.		636,727.10	3,363,949.15
Total current liabilities			$ 9,447,336.35
EMPLOYEES' DEPOSITS FOR PURCHASE OF SAVINGS BONDS—Contra			21,169.50
RESERVES:			
Amount appropriated for excess of replacement cost over original cost of plant property		$ 350,000.00	
For contingencies		900,000.00	1,250,000.00
CAPITAL STOCK AND SURPLUS:			
Common stock (authorized and outstanding, 250,000 shares; par value $5 per share)		$ 1,250,000.00	
Surplus:			
Paid-in surplus (no change during year)	$5,736,637.90		
Earned surplus	5,106,298.21	10,842,936.11	
Total capital stock and surplus			12,092,936.11
TOTAL LIABILITIES, CAPITAL, AND SURPLUS			$22,811,441.96

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SACO-LOWELL SHOPS
and Subsidiary Companies

SUMMARY OF CONSOLIDATED INCOME
For the Year Ended November 30, 1947

NET OPERATING PROFIT BEFORE DEPRECIATION		$7,150,512.48
PROVISION FOR DEPRECIATION (see footnote)		348,882.44
NET OPERATING PROFIT		$6,801,630.04
ADD:		
Interest income	$ 19,059.65	
Miscellaneous income credits	22,718.02	41,777.67
GROSS INCOME		$6,843,407.71
DEDUCT:		
Interest expense	$ 42,676.80	
Provision for social security and state taxes	382,453.83	
Additional depreciation for 1946 (see footnote)	82,612.70	507,743.33
NET INCOME BEFORE PROVISION FOR FEDERAL TAX ON INCOME		$6,335,664.38
DEDUCT—Provision for Federal tax on income		2,500,000.00
NET INCOME FOR THE YEAR		$3,835,664.38
DEDUCT:		
Income appropriated for excess of replacement cost over original cost of plant property	$350,000.00	
Provision for contingencies	468,162.25	818,162.25
BALANCE OF INCOME TRANSFERRED TO CONSOLIDATED EARNED SURPLUS		$3,017,502.13

NOTE: Depreciation on machinery and equipment, which heretofore was computed on the basis of a 30-year life, has been computed on the basis of a 20-year life for the years 1946 and 1947; as a result of such change additional depreciation in the amount of $82,612.70 for 1946 and approximately $85,000 for 1947 is reflected in the above summary of consolidated income.

SUMMARY OF CONSOLIDATED EARNED SURPLUS
For the Year Ended November 30, 1947

EARNED SURPLUS, November 30, 1946		$3,227,588.40
ADD—Balance of income transferred from summary of consolidated income		3,017,502.13
Total		$6,245,090.53
DEDUCT:		
Portion of refund ($1,475,057.79 received in 1946) of Federal excess profits tax returned to Government as a result of Treasury Department's examination	$ 138,792.32	
Dividends paid	1,000,000.00	1,138,792.32
EARNED SURPLUS, November 30, 1947		$5,106,298.21

HASKINS & SELLS
ACCOUNTANTS

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BOSTON 10

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 30, 1947 and the related summaries of consolidated income and consolidated earned surplus for the year ended that date. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial condition of the companies at November 30, 1947 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS.

February 3, 1948

DIRECTORS OF SACO-LOWELL SHOPS

O. KELLEY ANDERSON
President and Trustee, Consolidated Investment Trust

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
Director, Scott & Williams, Inc., and Penn Metal Co., Inc.

RALPH HORNBLOWER
Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Company

W. F. LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

THORVALD S. ROSS
President, Rivett Lathe & Grinder, Inc.

OFFICERS OF SACO-LOWELL SHOPS

DAVID F. EDWARDS
President

W. F. LOWELL
Vice President

JOHN S. CHAFEE
Vice President

E. C. GWALTNEY
Vice President

W. W. GAYLE
Vice President

MALCOLM D. SHAFFNER
Treasurer and Secretary

J. ARNOLD KIELY
Comptroller and Clerk

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.

INDEPENDENT PUBLIC ACCOUNTANTS

Haskins & Sells, Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company, Boston, Mass.

REGISTRAR

The First National Bank of Boston, Boston, Mass.

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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

FISCAL YEAR
1948

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

ANNUAL REPORT

To the Stockholders for the Fiscal Year
Ending November 28, 1948

Executive Offices . . . . 60 Batterymarch St., Boston, Mass.
Branches: Charlotte, N. C. . Greenville, S. C. . Atlanta, Ga.
Shops at Biddeford, Saco, and Portland, Maine
Sanford, N. C., and Pawtucket, R. I.

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To the Stockholders of

SACO-LOWELL SHOPS

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For the fiscal year 1948 the net profit after all charges, transferred to surplus, was $4,100,000, of which $1,000,000 was paid in cash dividends. In addition, to conserve badly needed cash, a stock dividend of 20% was paid on August 9th, thus increasing the outstanding stock from 250,000 to 300,000 shares. It was necessary to retain the greater part of these substantial earnings in the business to take care of the big increase in physical and dollar volume and to pay for extensions and improvements in plant, equipment, and operating methods, required to increase production and lower costs.

MANUFACTURING

For some years the Company has felt increasingly the need of a plant in which to make a beginning in manufacturing textile machinery in the South, which is our principal domestic market. In September of 1948 the Company purchased for something less than $600,000, a plant affiliated with the Indian Motorcycle Company, located in Sanford, North Carolina. This plant is a fully equipped modern machine shop, comprising about 85,000 square feet of floor space, mostly on the ground level, and laid out and tooled for the manufacture of high grade metal products. The Company also purchased several tracts of adjacent land and today owns a plant site totaling about 22 acres, well located with respect to railroad and highway transportation. During the war this plant made precision parts for the aircraft industry and was notably successful in doing this kind of exacting work. At the peak of its multiple shift operations during the war the plant employed about 900 men. Within a radius of 250 miles of this plant are located about three-quarters of the spindles of the great cotton textile industry of the Southern Atlantic Seaboard.

Although only four months have elapsed since the purchase of the Sanford Plant, it is already beginning to show some profit from its operations on textile

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machinery products. This exceptionally rapid conversion has been made possible in large measure because the services of a small group of experienced managerial personnel, employed by the former owners, were immediately available. This group has continued to manage the plant and has proven itself to be just as competent in making textile machinery products as it was in making airplane parts during the war.

The acquisition of this plant, located in the midst of our biggest domestic market, and with easy access to the big steel and iron producing areas of Pennsylvania and Alabama, will enable us to gain first-hand knowledge as to the operating advantages and disadvantages of manufacturing textile machinery in the South. Reliable knowledge and experience of this kind is urgently needed as a basis for future planning. The greater part of the Company's plants in Biddeford and Saco, Maine, are old, multi-storied structures in which most of the movement of material is necessarily up and down from one floor to another by means of elevators. This is a slow and costly way to move and handle the great tonnage of heavy materials that must be processed in our kind of business.

From time to time we shall have to make important decisions as to whether large sums shall be spent in the rebuilding of old, inadequate structures in Biddeford and Saco, or spent in acquiring new plant facilities in some other location. The actual experience gained in operating the Sanford Plant will provide a sound factual basis for such decisions.

Within another year and perhaps sooner the volume of our production may decline considerably from the abnormally high level prevailing today. Even a moderate decline could bring us uncomfortably close to the break-even point of our operations, which is much higher today than before the war because of the great increase in our costs, notably wages which have advanced about 137% since 1939. When declining volume begins to force us closer and closer to this higher break-even point, it will become imperative that management take advantage of all available means to lower the break-even point even though such means may require the transfer of some operations to one or more plants in the South.

During the fiscal year just closed the volume of production increased steadily in spite of shortages, which continued to hamper operations throughout the year. The total production in 1948 was about double in physical quantity the production of 1941, which was a year of good volume, as volume was rated in the pre-war years.

Throughout the year the Company has continued to make minor improvements in its plant structures, though no significant additions of floor space have been made to the plants in Biddeford and Saco, Maine. Existing floor space has been used more effectively by reenforcing old buildings to enable them to carry the heavier floor loads made necessary by the much greater quantities of materials stored, handled, and processed. Tools and equipment have been re-arranged, methods and facilities for storing and handling materials have been improved, and continued progress has been made in better planning and scheduling of production. These improvements in facilities and methods have contributed effectively to the better production performance, but even more effective has been the hard, unflagging effort and the loyal teamwork of the supervisory personnel.

INDIRECT LABOR

Aside from the general increase in employee compensation and in the costs of materials, perhaps the most important single cause of higher overhead costs and the higher break-even point is the great increase in the number of indirect man hours required to operate the plants. Factory accountants generally classify man hours as direct and indirect. Hours of employee effort applied directly to the fabrication of product (e.g. machining and assembly) are classified as direct. Hours of employee effort not applied directly to the product but required in the general operation of the plant (e.g. material handling, maintenance work, etc.) are classified as indirect. In most metal working plants, including our own, direct labor is compensated by what is known as incentive wages which make the earnings of the employee proportionate to the quantity and quality of the product he turns out. Indirect labor effort, with some exceptions, cannot be measured accurately and compensated by incentive wages, such as piece work for example, and is usually paid for by the hour without direct reference to the work accomplished. The productivity of indirect labor, therefore, is dependent in large measure upon the attitude of the individual worker toward his job, his willingness and desire to do a fair day's work, and in some measure on the kind of supervision he receives and the kind of work discipline he will accept and observe.

In recent years, as compared with pre-war years, there has been a startling decline in the productivity of indirect labor. The December 1948 issue of the Monthly Labor Review, published by the U. S. Bureau of Labor Statistics, contains a study which gives figures by years starting with 1940, as to the number of indirect hours required to produce a unit of product in selected groups of the machine tool industry, which is very similar to our own business in the kind of manufacturing operations it performs. The figures as to indirect hours did not include general administration, office, engineering, and sales employees. In the period from 1940 to 1947, the last year for which figures are available, indirect hours required to produce a unit of product had increased by 40%. In other words, the productivity of indirect labor had declined to such an extent in 1947 that 140 unit hours of indirect labor were required to accomplish the same amount of work that was accomplished by 100 unit hours of effort in 1940, notwithstanding that during this same period wage rates and earnings of indirect labor about doubled. This drop in the productivity of indirect labor is one of the chief reasons why overhead costs have risen sharply in many industries and why break-even points are so dangerously high today in relation to volume. The conditions and trend indicated by these figures for the machine tool industry exist also in our own plants today and will become increasingly burdensome as our volume declines, as has happened already in the machine tool plants. This is one of the major problems that must be faced and solved if substantial reductions are to be made in overhead costs.

LABOR RELATIONS

A few weeks ago the Company received a demand for a further wage increase of 10¢ per hour to become effective January 17, 1949. This demand was made under the wage re-opening clause of the Agreement now in effect between the Company and the Union. Straight time hourly earnings of all hourly workers today are about 137% above those in 1939, the year in which the war started. The rise in the cost of living appears to have been checked. The intake of new orders is growing steadily smaller. The earnings of our customers have fallen sharply in recent months. There seems to be no sound and convincing reason why a further increase should be made at this time. On the contrary, there are strong reasons for believing that such an increase might have consequences that would be unfortunate for both employees and the stockholders. The Agreement with the Union runs until March 15, 1950. It forbids strikes and provides for arbitration of all disputes between Management and the Union during the life of the contract. The Company has taken the position that a further increase in wages at this time is not justified. The Union has asked for arbitration, and the issue will be arbitrated by Professor Douglass V. Brown, Sloan Professor of Industrial Relations at Massachusetts Institute of Technology.

The Company's total working force numbered about 6000 at the end of the year, an increase of about 20% over last year. During the year there were a few unauthorized work stoppages of short duration in certain departments, growing out of misunderstandings which were quickly adjusted. In the main, labor relations were harmonious and continue so today. It is hoped that Union leadership will give effective cooperation to Management in its efforts to increase productivity, particularly of indirect labor, and reduce costs. Only by so doing can the Company maintain a good level of employment and face the future with confidence in its ability to meet the more difficult competitive conditions that are developing as volume falls off.

FINANCIAL

The Company closed the year in a strong financial position, but its cash balance was much less than at the beginning of the year. Inventories went up $5,944,000 and receivables $3,043,000, a total increase during the year of $8,987,000 in these two current asset accounts. Current liabilities expanded from $9,447,000 at the end of 1947, to $12,736,000 at the end of 1948. These figures reflect the substantial growth in the volume of production and sales (dollar sales were 40% over 1947) and also the big increase in the cost of services, purchased materials, and practically all other items entering into the cost of doing business. The inventory at the end of the year is somewhat larger than it would otherwise have been because the longshoremen's strike in November made it impossible to ship against foreign orders, and this caused an excessive accumulation of unshipped finished machinery in the inventory.

During the year the Company's plant accounts increased by $1,583,000. As already explained, this was caused by the purchase of badly needed new tools and equipment, by improvements to buildings in Biddeford and Saco, and by the purchase of the plant at Sanford, North Carolina. The surplus of current assets over current liabilities increased during the year by about $3,400,000 after the payment of $1,000,000 in cash dividends.

Inventory and receivable accounts, totaling $19,797,000 are in sound relationship to the current heavy volume of production and shipments. They are under vigilant scrutiny and should begin to convert steadily into cash when the present abnormal volume of production starts to decline. The very large amount of working cash capital currently tied up in these accounts, however, makes perfectly clear the reason why it was possible to pay only a moderate proportion of the earnings in cash dividends and why the cash account declined so greatly during the year. It is expected that cash will show slow but steady improvement during 1949.

The heavy demands for cash made it necessary to increase borrowings during the year by $850,000. Total borrowings today stand at $2,350,000, which is considerably less than the amount by which receivables alone went up, and is only 26% of the combined increase of inventory and receivables during the year. Of the total $2,350,000 borrowed, $1,500,000 is a five-year loan at 2½%, payable at the rate of $300,000 per year starting in November, 1949. The remaining $850,000 is a short term loan at 2% maturing in 1949.

Any review of the Company's financial position must always point out and emphasize the liability for Federal Income Taxes, which must be paid in cash during the twelve months following the close of the fiscal year and therefore is a current cash liability. The reserve for Federal Income Taxes at the end of the year was $3,500,000. This indicates the approximate amount that must be paid in cash before the end of 1949; nearly $900,000 per quarter, or $300,000 per month. This Federal Tax obligation, plus the greatly increased tie-up of working capital in inventory and receivables, again emphasizes the need to conserve cash in this period of swollen volume and inflated costs.

Prior to 1947, it was the Company's practice to set aside for depreciation of its facilities only such amounts as have been allowed as deductions for income taxes; provision for depreciation of machinery and equipment was made on the basis of a useful life of thirty years, based on original cost. Experience has shown, however, that under present economic conditions and having regard for technological progress, our machinery and equipment should be depreciated on the basis of a useful life much shorter than thirty years. Accordingly, for the current year depreciation of machinery and equipment has been computed on a basis of a fifteen-year life, and all equipment more than fifteen years old has been placed on a fully depreciated basis. Buildings also, because of their age, with some exceptions, have been depreciated on a basis of a remaining life of fifteen years. This revision has resulted in an increase of $340,000 in the amount set up for depreciation in 1948.

With respect to the cost of replacement of plant facilities, the cost of replacing machine tools has about doubled since the outbreak of the war. The cost to our Company of replacing equipment retired during the current year exceeded the original cost of the equipment retired by approximately $500,000. Provision for depreciation and obsolescence based on original cost has not, and from present indications, will not provide out of earnings the resources required for the replacement of facilities when they become worn out or obsolete. Earnings must provide the resources for replacing capital equipment, and earnings statements which omit such provision are, to that extent, inaccurate and misleading. To meet this situation in part, the reserve for excess of replacement cost over original cost of plant property has been increased by $500,000, although it is recognized that this increase in the reserve will not, under present regulations, be allowed by the Bureau of Internal Revenue as a deduction in determining income taxes.

SALES

The backlog of orders is still large particularly for certain types of machines, but during the latter part of the year shipments exceeded new orders, and there is no good reason to believe that this trend will be reversed during 1949. The volume of orders on hand at the end of the year was about 20% below what it was at the beginning. There is still a steady inflow of new orders, but the volume is growing steadily less than the current rate of shipments, and there is a growing lack of balance in the backlog of orders for various types of machines, which will soon cause a corresponding lack of balance in our production schedules and in our utilization of plant capacity.

Our business in foreign markets is more and more hampered and curtailed by multiplying exchange controls and import-export restrictions of all kinds. The dollar shortage is growing more stringent in practically all countries to which we export machinery, and it seems certain that our foreign business will feel the effect of the dollar shortage acutely as the year advances. There is still a real need for textile machinery not yet satisfied throughout the world. China alone desperately needs millions of new spindles to restore her textile industry, which was largely destroyed during the war. But in the current year at least it does not seem likely that dollar exchange will continue to be available to finance substantial shipments to foreign markets.

There has been an unmistakable recession in the textile industry during the last six months. Opinions differ as to how long this period of re-adjustment may last. There are competent observers who believe that by mid-year textile sales will be restored to reasonable volume, but competition will again be keenly active and prices will be less profitable than they have been during the last few years. Textiles constitute one of the big basic industries of the country, and if the economy as a whole continues to operate at a high level of production and earning power, it seems likely that the textile industry, during the next six months will be able to make the necessary corrections in the market conditions and recover a fair volume of sales and production.

Wages in the textile industry of the United States have considerably more than doubled since the pre-war years. Therefore, the savings in man hours made possible by the use of modern machinery will have substantially greater dollar value than when wages were lower. As volume declines and prices become more sharply competitive, the importance of reducing costs by the use of modern machinery becomes increasingly greater. Textile companies generally are in much stronger financial condition than in 1939, for example, and there is reason to believe that many of them will continue to buy new textile machinery in order to improve their productive efficiency in terms of labor hours.

FINANCIAL STATEMENTS

Included herewith are the Consolidated Balance Sheet and Summaries of Consolidated Income and Earned Surplus, certified by the Company's auditors, Haskins & Sells. For convenience in accounting, the Company has adopted four and five week accounting periods; since the last accounting period of the year ended on November 28, the accompanying financial statements have been prepared as of that date.

ANNUAL MEETING

A Notice of the Annual Meeting of Stockholders and a proxy form were mailed to you on February 3, 1949. Unless you plan to attend the Annual Meeting in person YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

DAVID F. EDWARDS,
President

February 3, 1949

NOTE: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS (Incorpora

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash		$ 2,468,542.58
United States Government obligations, at cost and accrued interest		1,540,162.50
Accounts receivable:		
Customers	$8,259,417.79	
Other	4,093.92	
Total accounts receivable	$8,263,511.71	
Less reserves for doubtful accounts and for allowances, adjustments, etc.	386,100.02	7,877,411.69
Inventories (not in excess of the lower of cost or market value)		11,533,213.77
United States savings bonds held for sales to employees		15,393.75
Total current assets		$23,434,724.29
MISCELLANEOUS ASSETS:		
Deposits with factory mutual fire insurance companies	$ 181,939.14	
Real estate mortgage note receivable	34,275.94	
Miscellaneous securities	12,501.00	228,716.08
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		7,300,522.99
DEFERRED CHARGES:		
Prepaid expenses	$ 129,652.21	
Cash advances to employees for expenses, etc.	36,312.18	165,964.39
TOTAL ASSETS		$31,129,927.75

in Maine) and Subsidiary Companies

EET, NOVEMBER 28, 1948

LIABILITIES, RESERVES, AND CAPITAL

Current Liabilities:		
Notes payable to bank		$ 1,000,000.00
Accounts payable — trade		3,077,344.30
Customers' advance payments on sales contracts		4,032,228.48
Accrued liabilities:		
Federal income taxes	$3,478,537.11	
Social security, state, and local taxes	196,624.47	
Payrolls and vacation accruals	676,225.40	
Agents' commissions, royalties, etc.	275,472.73	4,626,859.71
Total current liabilities		$12,736,432.49
Notes Payable To Bank (due after one year)		1,350,000.00
Reserves:		
Amount appropriated for excess of replacement cost over original cost of plant property	$ 850,000.00	
For contingencies	1,000,000.00	1,850,000.00
Capital Invested In Business:		
Common stock (authorized, 600,000 shares of $5 each; issued and outstanding, 300,000 shares)	$1,500,000.00	
Capital surplus:		
Paid in by stockholders (no change during year)	5,736,637.90	
Earnings capitalized in connection with stock dividend in 1948	1,750,000.00	
Earned surplus	6,206,857.36	
Total capital invested in business		15,193,495.26
Total Liabilities, Reserves, And Capital		$31,129,927.75

SACO-LOWELL SHOPS

and Subsidiary Companies

Fiscal Year Ended November 28, 1948

SUMMARY OF CONSOLIDATED INCOME

OPERATING PROFIT BEFORE DEPRECIATION		$9,279,264.45
PROVISION FOR DEPRECIATION (see footnote)		757,972.45
OPERATING PROFIT		$8,521,292.00
ADD:		
Interest income	$ 26,820.30	
Discounts on purchases	119,784.20	
Miscellaneous income credits	34,640.88	181,245.38
GROSS INCOME		$8,702,537.38
DEDUCT:		
Interest expense	$ 37,177.11	
Provision for social security and state taxes	461,280.73	
Additional payment on account of employees' retirement pension plan (applicable to services for prior years)	203,520.39	701,978.23
NET INCOME BEFORE PROVISION FOR FEDERAL TAX ON INCOME		$8,000,559.15
DEDUCT — Provision for Federal tax on income		3,300,000.00
NET INCOME FOR THE YEAR		$4,700,559.15
DEDUCT:		
Income appropriated for addition to reserve for excess of replacement cost over original cost of plant property	$ 500,000.00	
Provision for contingencies	100,000.00	600,000.00
BALANCE TRANSFERRED TO CONSOLIDATED EARNED SURPLUS		$4,100,559.15

NOTE: As explained in the President's letter (see page 7 thereof) depreciation on machinery and equipment and on buildings has been computed on the basis of a shorter remaining useful life than was used in prior years; as a result of such change, additional depreciation in the amount of approximately $340,000 is reflected in the above summary of consolidated income.

SUMMARY OF CONSOLIDATED EARNED SURPLUS

EARNED SURPLUS, November 30, 1947		$5,106,298.21
ADD — Balance transferred from summary of consolidated income		4,100,559.15
Total		$9,206,857.36
DEDUCT:		
Dividends paid:		
In cash	$1,000,000.00	
In common stock (50,000 shares, par value $5 each):		
Par value	250,000.00	
Excess of fair value over par value	1,750,000.00	3,000,000.00
EARNED SURPLUS, November 28, 1948		$6,206,857.36

HASKINS & SELLS
ACCOUNTANTS

80 FEDERAL STREET
BOSTON 10

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 28, 1948 and the related summaries of consolidated income and consolidated earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 28, 1948 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

February 2, 1949.

DIRECTORS OF SACO-LOWELL SHOPS

O. KELLEY ANDERSON
President and Trustee, Consolidated Investment Trust

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
Director, Scott & Williams, Inc., and Penn Metal Co., Inc.

RALPH HORNBLOWER
Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Company

W. F. LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

THORVALD S. ROSS
President, Rivett Lathe & Grinder, Inc.

OFFICERS OF SACO-LOWELL SHOPS

DAVID F. EDWARDS
President

W. F. LOWELL
Vice President

JOHN S. CHAFEE
Vice President

E. C. GWALTNEY
Vice President

W. W. GAYLE
Vice President

MALCOLM D. SHAFFNER
Treasurer and Secretary

J. ARNOLD KIELY
Comptroller and Clerk

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.

INDEPENDENT PUBLIC ACCOUNTANTS

Haskins & Sells, Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company, Boston, Mass.

REGISTRAR

The First National Bank of Boston, Boston, Mass.

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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

FISCAL YEAR

1949

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

ANNUAL REPORT

To the Stockholders for the Fiscal Year
Ending November 27, 1949

Executive Offices . . . . 60 BATTERYMARCH ST., BOSTON, MASS.
Branches: CHARLOTTE, N. C. . GREENVILLE, S. C. . ATLANTA, GA.
Shops at BIDDEFORD AND SACO, MAINE
SANFORD, N. C., AND PAWTUCKET, R. I.

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To the Stockholders of

SACO-LOWELL SHOPS

☆

For the fiscal year 1949 the net income transferred to surplus was $5,196,000, of which $1,050,000 was paid in dividends. It seemed prudent and sensible to retain the larger part of these infrequent and abnormally high earnings in the business, among other reasons, because: a — the Company's intake of new orders dropped sharply during the year and shipments were made increasingly from orders on hand, with the result that the backlog of unfilled orders at the close of the year was only 30% of what it was at the beginning; b — our durable goods type of business being much more fluctuating as to volume than most consumer goods industries, it is necessary that the Company accumulate earnings in good years to carry it safely through the inevitable lean years; c — a sound dividend and fiscal policy makes it wise to limit dividends in years of high earnings to a fair rate of return on the stock in order that dividend payments may be maintained at a more uniform and stable level in years of poor earnings; and d — the Company is faced with the necessity, explained later, of replacing the greater part of its old multistoried buildings and moving its operations into new modern structures, an operation that will require large expenditures of cash, but when completed should make possible large savings in manufacturing costs.

NEW BUILDINGS

The annual report of last year contained the following statement: "From time to time we shall have to make important decisions as to whether large sums shall be spent in the rebuilding of old, inadequate structures in Biddeford and Saco, or spent in acquiring new plant facilities in some other location. . . . Within another year and perhaps sooner the volume of our production may decline considerably from the abnormally high level prevailing today. Even a moderate decline could bring us uncomfortably close to the break-even point of our operations, which is much higher today than before the war because of the great increase in our costs, notably wages which have advanced about 137% since 1939. When declining volume begins to force us closer and closer to this higher break-even point, it will become imperative that Management take advantage of all available means to lower the break-even point even though such means may require the transfer of some operations to one or more plants in the South."

To aid the Management and Directors in their study and consideration of this plant rebuilding program, so vital to the future well-being of the business, the well-known engineering firm of Ford, Bacon & Davis was retained last Spring to make a careful survey of the whole perplexing building and location question. Their thorough and comprehensive report has now been completed and will provide a detached competent professional guide for the Company's own thinking and effort in working out a sound plant replacement program that will best meet the needs of the business. Such a program is now being developed and should be ready for consideration and action before the end of the current year. The conclusions in the Ford, Bacon & Davis report make it clear that consideration of a plant replacement program, regardless of location, is urgent and necessary.

Without attempting to make a precise forecast at the present time, it is obvious that any building program including cost of moving, with all that entails, and replacing a considerable quantity of machinery and equipment that is not good enough to justify moving and relocating in a new modern plant, will involve large cash outlays. The program may involve some improvements of the Company's existing plant at Sanford, North Carolina, which is operating in a highly satisfactory manner, and the possible extensions and improvements to this plant will also require cash.

The foregoing will indicate some of the reasons why it is wise, and even imperative, that the Company conserve its present sound liquid asset position in order that it may carry through a program during the next few years that will greatly strengthen its operating and competitive position, and safeguard its future.

MANUFACTURING OPERATIONS

During the past year continued progress has been made in improving methods and tools, strengthening controls over manufacturing operations, and improving the design of our products. Expenditures on the old existing plant structures have been limited to what was necessary to enable the Company to handle its heavy volume of production. New tools, with minor exceptions, can be moved readily into new buildings, but new construction cannot be moved and should be made only if the Company expects to continue using it for a long period of time. This would not be true with respect to most of the Company's existing old buildings because of the inescapable penalties they impose on operating costs, particularly in the form of maintenance charges and in the cost of moving and storing the great tonnages of heavy materials which must be handled in processing textile machinery.

The cost of handling and storing material in our kind of business is, roughly, two-thirds as large as the cost of the direct labor expended in fabricating the material and converting it into finished machinery. This statement gives some idea of the importance and magnitude of material handling costs and the imperative need for reducing them by housing operations in a completely modern plant, mostly at ground level which will permit smooth, continuous flow of material on one floor level and get away from the need of moving massive tonnages of metal up and down in four and five story buildings by means of elevators.

LABOR RELATIONS

The Collective Bargaining Agreement between the Union and the Company now in effect was made for a term of two years and expires on March 15th next. By mutual consent this Agreement has been renewed for a period of one year without change. During the past year working relations between the Union and Management have been harmonious and cooperative. Differences have been settled in an orderly way through the grievance procedure as provided in the Agreement, and there have been no significant work stoppages. The leadership of our Union, exercising notable wisdom and restraint, has decided not to press for a wage increase or a pension plan at this time.

The whole question of pensions is a major problem of industry today and is full of uncertainties and dangers. These plans impose on private companies very great financial burdens indeed, and in periods of stagnant business and unprofitable operation might break down of their own weight. Rough preliminary calculations indicate, for example, that a pension plan similar to that of the United States Steel Corporation would impose upon Saco-Lowell Shops an annual fixed charge approximating the interest and amortization charges required to carry a new modern plant to house the larger part of the Company's operations. The fixed charge required to finance a new plant should, of course, carry and liquidate itself out of carefully calculated operating savings. This would not be true of a pension plan.

The total payroll has declined from about 6,000 at the beginning of the year to about 3,700 at the end of the year. This latter figure reflects the decline in the volume of business, but is still at a higher level than in the pre-war years.

FINANCIAL

The financial position of the Company at the end of the year was strong and liquid. Cash, short term Government securities, and receivables totaled $14,500,000, or 50% of total assets. The excess of current assets over current liabilities was $14,041,000, or about $47 per share of the Company's outstanding 300,000 shares of stock. In appraising this strong liquid position, though, it must be noted that the reserve for Federal Income Taxes is $3,646,000, which indicates the approximate amount that must be paid during the twelve months of the current fiscal year. Federal Income Tax payments of about $275,000 for each month in a year when volume and earnings will be greatly reduced below those of the previous year make it necessary to have a large cash balance to meet these payments safely and without strain.

During the year inventory went down $4,079,000, and receivables $5,298,000. Today they are in sound relationship to the reduced volume of shipments. About 20% of the year-end inventory consisted of finished machinery, most of it against foreign orders, shipment of which is slow because of the difficulties and delays encountered in completing financial arrangements involving dollar exchange.

Consistent with the policy of the previous two years, the high cost of replacing facilities when they become worn out or obsolete has been recognized by adding $300,000 to the Reserve for Excess of Replacement Cost over Original Cost of Plant Property.

The bank loan of $1,000,000, outstanding at the end of the year, has since been paid, and at the time this report goes to press, the Company has no indebtedness other than current liabilities.

SALES OUTLOOK

As stated already, the backlog of unfilled orders at the end of the year was down to about 30% of what it was at the beginning. But it should be remarked that this backlog, greatly reduced though it is, would have been regarded as normal and adequate even in moderately good years before the war. We must remember and give due weight to the fact that the volume of the last three years has been far beyond normal proportions and was the result of five years of pent-up demand for textile machinery and an abnormally high level of sales volume and earning power on the part of our customers. Our backlog and expected volume for the first half of 1950 could be called moderately good judged by pre-war standards though monthly shipments are likely to be less than two-thirds of last year's monthly average.

During the greater part of last year the buying of textile machinery was at a very low level indeed. The textile industry was going through a period of drastic re-adjustment, prices for textile products dropped sharply, and the mills generally were very cautious about making new commitments for machinery. Toward the end of the year, however, the corrective process was well along toward completion and there were signs that conditions were improving somewhat and growing more stable. Today, competition is very active and prices are highly competitive, but the sentiment in the industry is more cheerful and hopeful. There is general agreement, though, that volume and earnings will not return to the level that prevailed in the years immediately following the close of the war.

Our business in foreign markets continues to be greatly hindered and curtailed by exchange controls and export-import restrictions of all kinds. The dollar shortage has grown steadily more acute throughout the past year and the devaluation of the pound sterling made an already bad situation worse, particularly with respect to competition from the big British builders of textile machinery. Nevertheless, many of our foreign customers still need and want to buy Saco-Lowell machinery and some foreign orders continue to be placed, in spite of the very difficult exchange situation. There is a large body of competent opinion to support the belief that within a few years the handicaps, created by devaluation of the pound, will have largely disappeared because of a sharp rise in the costs of manufacturing textile machinery in the sterling countries that will almost certainly follow devaluation. Economic history teaches that in spite of efforts to control wages and prices, the advantages of currency devaluation are temporary and short-lived. For the next year or two, however, we shall feel the adverse effects of devaluation in our business.

The question is sometimes asked as to whether the textile industry generally, and the textile machinery industry in particular, are likely to suffer a long period of depression as an aftermath of World War II similar to the terrible depression and liquidation which followed as the aftermath of World War I. A study of the underlying conditions in the two periods indicates that they are wholly different. During the first World War the practice of double and triple shift operation was introduced for the first time in the mills of this country. The effect was to increase enormously the productive capacity of the cotton textile industry within a period of five to ten years. Markets were swamped with over-production, prices became utterly demoralized, profits dwindled or disappeared entirely, and a long period of suicidal competition began. The result was that between the middle 1920's and the late 1930's great numbers of failures occurred, the weaker mills were liquidated and the cotton spindles of the country shrank from nearly 38,000,000 in 1925 to 25,000,000 spindles in 1940. This liquidation of 13,000,000 spindles in a period of fifteen years was one of the most devastating and tragic experiences in the economic history of this country and most of the liquidation took place in New England where many communities still bear the scars of it.

Today there are about 24,500,000 spindles (spinning cotton and synthetic fibres) in the United States as compared with nearly 38,000,000 in 1925. The practice of multiple shift operation has been in general use for a quarter of a century and during that time the population of the United States has increased by 35,000,000, an increase equal to a market about three times the size of Canada, and the increase continues at the rate of about 1,500,000 per year. Generally speaking also, the textile mills of the country today are in good financial condition. These facts should be kept in mind in any attempt to draw a parallel between what happened to the textile industry after World War I and what may happen after World War II.

ANNUAL MEETING

Included herewith are the Consolidated Balance Sheet and Summaries of

Consolidated Income and Consolidated Earned Surplus, certified by the Company's auditors, Haskins & Sells. For convenience in accounting, the Company has adopted four and five week accounting periods; since the last accounting period of the year ended on November 27, the accompanying financial statements have been prepared as of that date.

A Notice of the Annual Meeting of Stockholders and a proxy form have been mailed to you. Unless you plan to attend the Annual Meeting in person YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

DAVID F. EDWARDS,
President

January 31, 1950

NOTE: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHOPS (Incorpor

CONSOLIDATED BALANC

ASSETS

Current Assets:		
Cash		$ 2,645,791.54
United States Government obligations, at cost and accrued interest		9,278,660.46
Notes and accounts receivable:		
Notes receivable — customers	$ 107,297.60	
Accounts receivable — customers	2,822,579.79	
Other receivables	35,478.75	
Total accounts receivable	$2,965,356.14	
Less reserves for doubtful accounts and for allowances, adjustments, etc.	379,890.01	2,585,466.13
Inventories (not in excess of the lower of cost or market value)		7,454,132.94
United States savings bonds held for sales to employees		12,337.50
Total current assets		$21,976,388.57
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 158,395.38	
Real estate mortgage note receivable	31,535.08	
Miscellaneous securities	12,501.00	202,431.46
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		6,862,047.97
Deferred Charges:		
Prepaid expenses	$ 53,217.14	
Cash advances to employees for expenses, etc.	31,095.14	84,312.28
Total Assets		$29,125,180.28

in Maine) and Subsidiary Companies

HEET, NOVEMBER 27, 1949

LIABILITIES, RESERVES, AND CAPITAL

CURRENT LIABILITIES:		
Notes payable to bank (paid December 29, 1949)		$ 1,000,000.00
Accounts payable — trade		1,011,359.47
Customers' advance payments on sales contracts		1,207,258.90
Accrued liabilities:		
Federal income taxes	$ 3,645,838.65	
Social security, state, and local taxes	199,741.38	
Payrolls and vacation accruals	479,682.58	
Agents' commissions and royalties	260,222.22	
Miscellaneous	131,230.11	4,716,714.94
Total current liabilities		$ 7,935,333.31
RESERVES:		
Amount appropriated for excess of replacement cost over original cost of plant property	$ 1,150,000.00	
For contingencies	1,000,000.00	2,150,000.00
CAPITAL INVESTED IN BUSINESS:		
Common stock (authorized, 600,000 shares of $5 each; issued and outstanding, 300,000 shares)	$ 1,500,000.00	
Capital surplus:		
Paid in by stockholders (no change during year)	5,736,637.90	
Earnings capitalized in connection with stock dividend in 1948	1,750,000.00	
Earned surplus	10,053,209.07	
Total capital invested in business		19,039,846.97
TOTAL LIABILITIES, RESERVES, AND CAPITAL		$29,125,180.28

SACO-LOWELL SHOPS

and Subsidiary Companies

Fiscal Year Ended November 27, 1949

SUMMARY OF CONSOLIDATED INCOME

OPERATING PROFIT BEFORE DEPRECIATION		$9,406,222.99
PROVISION FOR DEPRECIATION		582,128.85
OPERATING PROFIT		$8,824,094.14
ADD:		
Interest income	$ 50,972.72	
Discounts on purchases	93,444.00	
Miscellaneous income credits	25,306.03	169,722.75
GROSS INCOME		$8,993,816.89
DEDUCT:		
Interest expense	$ 45,389.94	
Provision for social security and state taxes	452,075.24	497,465.18
NET INCOME BEFORE PROVISION FOR FEDERAL TAX ON INCOME		$8,496,351.71
DEDUCT — Provision for Federal tax on income		3,300,000.00
NET INCOME FOR THE YEAR		$5,196,351.71

SUMMARY OF CONSOLIDATED EARNED SURPLUS

EARNED SURPLUS, November 28, 1948		$ 6,206,857.36
ADD — Net Income for the Year		5,196,351.71
Total		$11,403,209.07
DEDUCT:		
Dividends paid	$1,050,000.00	
Amount appropriated for addition to reserve for excess of replacement cost over original cost of plant property	300,000.00	1,350,000.00
EARNED SURPLUS, November 27, 1949		$10,053,209.07

HASKINS & SELLS
ACCOUNTANTS

80 FEDERAL STREET
BOSTON 10

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of November 27, 1949 and the related summaries of consolidated income and consolidated earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 27, 1949 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

January 31, 1950.

DIRECTORS OF SACO-LOWELL SHOPS

O. KELLEY ANDERSON
President and Trustee, Consolidated Investment Trust

JOHN S. CHAFEE
Vice President

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
Director, Scott & Williams, Inc., and Penn Metal Co., Inc.

RALPH HORNBLOWER
Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Company

W. F. LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

THORVALD S. ROSS
President, Rivett Lathe & Grinder, Inc.

OFFICERS OF SACO-LOWELL SHOPS

DAVID F. EDWARDS
President

W. F. LOWELL
Vice President

JOHN S. CHAFEE
Vice President

E. C. GWALTNEY
Vice President

MALCOLM D. SHAFFNER
Treasurer and Secretary

J. ARNOLD KIELY
Comptroller and Clerk

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.

INDEPENDENT PUBLIC ACCOUNTANTS

Haskins & Sells, Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company, Boston, Mass.

REGISTRAR

The First National Bank of Boston, Boston, Mass.

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Saco-Lowell Shops

ANNUAL REPORT TO THE STOCKHOLDERS

FISCAL YEAR
1950

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

ANNUAL REPORT

To the Stockholders for the Fiscal Year
Ending December 3, 1950

Executive Offices . . . . 60 Batterymarch St., Boston, Mass.
Branches: Charlotte, N. C. . Greenville, S. C. . Atlanta, Ga.
Shops at Biddeford and Saco, Maine
Sanford, N. C., and Pawtucket, R. I.

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To the Stockholders of

SACO-LOWELL SHOPS

☆

The net profit for the fiscal year 1950 was $2,908,522.54. Dividends amounting to $1,350,000 or $4.50 per share were declared on the 300,000 shares of stock outstanding. These earnings were only 56% of the abnormally high earnings of last year, but they were substantial and satisfactory for a year of only moderate volume as 1950 was, judged by normal standards in our industry.

MANUFACTURING

After thorough and painstaking study of all aspects of the Company's plant rebuilding program, the decision has been reached to build the first installment of the new building program in the Biddeford-Saco area. The new building, which will have nearly 300,000 square feet of floor space, will be located on a new site about 175 acres in extent and within two miles of the present plant.

The decision to build in the Biddeford-Saco area was a difficult one to reach because the arguments for building in the South about balanced those favoring the present location. It was finally decided that whatever may be done in the future to expand the Company's operations in the South (the plant in Sanford, North Carolina, now has about 600 employees), it is probable that the Company will always want to maintain a substantial operation in its present location, and this operation should be housed in a completely modern building on one floor level that will make possible many economies that cannot be realized in the Company's old, multi-storied buildings. In particular that portion of the present plant which is located on the Saco side of the river and was designed and constructed originally for cotton mill operations with light floor loads is unsuitable for a metal-working business making a heavy product like ours. The new building can accommodate all the operations now carried on in the old cotton mill buildings and would permit the abandonment of these out-moded structures except for storage of inactive material and other incidental uses, unless the demands of the expanding defense program dictate the continued use of both the old and the new buildings.

The cost of the new building as estimated in the construction contract (placed with The Austin Company of Cleveland, Ohio) is $2,570,000 in round figures. The contract, however, contains the usual escalator clauses with respect to labor and material, and the final cost, when the building is completed next Autumn, may well be in excess of the estimates made on the basis of today's costs. The purchase and preparation of the new plant site, the installation of auxiliary service equipment, railroad sidings, and so forth, and the cost of moving into and getting settled in the new building will probably increase the total outlay, as estimated today, to about $3,000,000. Careful calculations indicate that operating advantages and economies made possible by the new building will show a saving on the investment of more than 15% annually before taxes in years of moderate volume.

It is estimated today that ultimately the Company may require about 1,000,000 square feet of new plant floor space to house its operations. Changing conditions during the next few years can greatly alter this estimate. The old, narrow, multistoried buildings in which we operate now comprise nearly 1,500,000 square feet of floor space. The first new building will provide something less than one-third of the new plant capacity that the complete rebuilding program may require ultimately. When the remainder of the program will be built and where, in the North or in the South and the extent of it, are questions that will be answered and decided by the experience and the events of the next few years.

During the past year, working in accordance with a carefully considered plan, the Company has continued to replace equipment no longer serviceable and has purchased modern machine tools and other industrial equipment in an amount exceeding $800,000. This compares with current annual depreciation on machine tools and equipment, exclusive of buildings, of about $400,000. The expenditure in excess of depreciation has been made necessary by many years of deferred replacement of tools and equipment, both during the depression years of the 30's when the Company's burden of debt and depleted financial condition did not permit the buying of new tools in the quantities needed, and during the war years when new tools were available only for use on war products. Since the close of the war, the Company has spent about $5,000,000 (a yearly average of about $1,000,000) in the replacement of worn-out and obsolete tools and equipment, and today these facilities are rapidly approaching a good average level of modernity and mechanical excellence. Hereafter it is expected that the annual expenditure on replacements of machine tools and equipment will be at a considerably lower level than the average for the last five years of $1,000,000. Any figures of this kind, of course, are related to the prevailing price levels, and if inflation forces the prices of tools well above the present levels, the annual amount that must be expended for replacements will be correspondingly affected.

LABOR RELATIONS

The foregoing section has explained the efforts the Company is making and the large sums it is spending and must continue to spend to provide a modern plant and up-to-date tools for its employees to use in carrying on the operations of the business. At this point it seems appropriate to restate what was said in the Company's Annual Report for 1947.

Good labor relations are just as important in the efficient operation of an industrial plant today as are modern buildings, good tools, and sound operating methods. A strike, resulting in a complete shut-down, is, of course, a grave misfortune for the employees, the Company, the community, and often for the customers who are in urgent need of the Company's product. But equally unfortunate, and perhaps even worse in their accumulated effects because they may go on year after year, are occasional minor but recurring work stoppages, lack of good working discipline, failure to do a fair day's work on the part of considerable numbers of employees, excessive absenteeism, and a generally careless, irresponsible, and indifferent attitude toward the job.

All these factors, for which union leadership must accept a large measure of responsibility, can disrupt and slow down operations in countless minor ways which are massive in their aggregate effect on the whole plant operation and can break the rhythm and balance of productive effort, reduce output, increase costs, and weaken the Company's competitive position and its ability to serve its customers efficiently, get orders, maintain employment, and pay good wages. These conditions can be just as demoralizing and harmful to efficient operation and low costs as are antiquated plants, poor tools, bad methods, and shortages of materials.

To achieve and maintain a high level of operating efficiency, a plant like Saco-Lowell Shops must have fairminded, well-ordered cooperation and good teamwork between management and union leadership. This kind of genuine, whole-hearted cooperation with management by union leadership and membership as a condition of successful competitive operation is particularly important for certain types of heavy goods industries in New England, including our own, because New England as a region does not possess some of the natural advantages found in other areas of the country, and this geographical handicap must be met and over-come in considerable part by better than average labor relations, good work discipline, reasonable wage rates, and high man-hour productivity. Without these, it becomes very difficult to justify the continuance of a heavy metal working industry like ours in the northeastern corner of the country, particularly when three-quarters of its domestic market is in the South, as is the case with Saco-Lowell Shops.

During the Fall, the Company negotiated a new long-term five-year agreement with the union which gave a 10% increase in wages effective September 18 last and provides that wages shall be adjusted quarterly in accordance with the now widely used cost of living formula set up originally in the union contract of the General Motors Corporation. The agreement also provides for an annual improvement factor of 4 cents effective for 3 years. Thereafter the improvement factor ceases to be automatic and becomes subject to negotiation and, if necessary, to arbitration at stated intervals. Midway in the contract term, or at the end of 2½ years from September 15, 1950, the Company has the unilateral right to request a revision downward in wages, and if the union refuses the request, the issue may be decided by an impartial arbitrator whose finding shall be binding on the parties. The Company also agrees to expend up to, but not in excess of, an average annual amount of $75,000 for the five-year period of the contract to provide income for employees retired because of age.

This long-term contract with cost of living adjustments, to be made in accordance with a predetermined formula, is an attempt to do away with labor disputes and work stoppages and establish industrial peace for five years. Lived up to and observed with sincerity and good faith by both parties, it should be beneficial to the employees, the Company, and the community. What may be the effect of impending wage and price controls on the operation of this agreement remains to be determined.

FINANCIAL

The Company's financial position continues to be strong and liquid, which is fortunate, having regard for the plant rebuilding program and all the incidental expenses attending that program which lie ahead. Compared with the close of last year, cash and short term governments are down $1,335,839, receivables are up $1,052,031 and inventories are up $1,084,041. Current liabilities are down $316,429. After these changes the excess of current assets over current liabilities as of December 3rd was $15,155,187, or about $50.00 per share on the 300,000 shares of stock outstanding. This highly liquid position, of course, will be modified as cash is converted into new plant construction, but it is the firm intention of the Company's directors and management, recognizing the operating hazards and uncertainties which lie ahead, to exercise especial care to keep the Company in a secure, solid position with respect to its cash resources, and the plant rebuilding program will be planned and handled in conformity with that intention.

SALES

Since the outbreak of fighting in Korea last June, there has been a marked increase in the amount of new business received. The backlog of unfilled orders at the end of the year was about double what it was at the end of June, and new orders continue to be received in volume equal to the volume of outgoing shipments.

Our customers, the textile mills, had gone through their period of corrective adjustment following the post-war boom and had recovered in large measure from the slump which began in textiles in the Summer of 1948. When fighting in Korea started and the defense program was stepped up sharply, activity in the textile industry was greatly stimulated, and many mills felt it wise to place orders for machinery which they knew they would need as quickly as it could be delivered. This has resulted in a substantial increase in the Company's unfilled orders, which, as stated above, are about double what they were last June.

OUTLOOK

The significance of this sharp increase in sales, however, is confused and darkened by a cloud of uncertainty, caused by the rapidly developing material shortages. Steel, pig-iron, aluminum, copper, zinc, etc., materials we must have to produce textile machinery, are already in short supply and subject to allocation and usage limitations. The list of critical materials and the controls governing their use multiply each week that goes by. We have substantial quantities of machinery scheduled for production during the first half of 1951, but only time and the events of the next few months will tell us whether or not we can build the schedules we have planned.

The status of the textile machinery industry from the standpoint of essentiality and its place in the national defense effort has not yet been officially determined or defined. The National Association of Textile Machinery Manufacturers has filed in Washington a carefully prepared and convincing brief, setting forth the reasons why textile machinery should be given a much more favorable position in the defense effort than it was given in the last war. Until this brief has had consideration by competent authorities and the situation in Washington with respect to priorities has been clarified, the operating position of the textile machinery industry and of your Company will remain obscured in a fog of uncertainty as to controls and material supply which forbids any forecast beyond the first quarter.

We are hopeful that we shall be permitted to build textile machinery at least in moderate, profitable volume. If this does not prove to be the case, then we shall have to try to find other types of products related to the defense effort which carry priority ratings that will make it possible to obtain materials needed for their production.

The situation just described is typical of that faced by most metal working plants today. The January issue of the "Business Record" published by the National Industrial Conference Board, says in effect: "The defense program is not going to be profitable for industry, according to the 178 manufacturers cooperating in the survey of business opinion on the outlook for the first six months of 1951. Net profits in 1951, they assert, will fall below the figures for 1950, principally because of rising material and labor costs, smaller margins on military than on civilian orders, and higher taxes."

The Company's management has already begun a vigorous effort to find and study suitable types of defense products that might be built in our plants and this effort will be sustained and intensified as time goes on in order that possible shrinkage of our regular production of textile machinery below reasonable volume may be compensated for by the acquisition of new business on defense products. It should be said, however, that in the last war the search for war products suited to our facilities was a long and difficult task, and it will probably prove so again.

The Company closed the year with its organization at all locations working hard and of good morale; its operations running smoothly; its orders in good volume, and its financial condition especially strong. Only the uncertainties and conditions described above make the outlook and earning power for the coming year unsure and unpredictable. We share this position and this outlook with many other successful companies and in some fashion and before long the situation will begin to clarify itself and the right way will be found to give most effective cooperation to the National Mobilization effort and at the same time safeguard the needs of the great basic industry we serve.

ANNUAL MEETING AND PROPOSED SPLIT-UP OF COMPANY'S STOCK

The Board of Directors, after careful consideration, have decided to recommend to the stockholders the split-up of the Company's stock on a two-for-one basis. This is in line with action taken by many other publicly owned corporations in recent years.

At the present time the Company has an authorized capital consisting of 600,000 shares of the par value of $5 each, of which 300,000 shares are issued and outstanding. As a result of the split-up, if authorized by the stockholders, the Company will have an authorized capital consisting of 1,200,000 shares of the par value of $2.50 each of which 600,000 shares will be issued and outstanding. This will mean that each shareholder will hold two shares of stock of the par value of $2.50 each in lieu of each share of stock of the par value of $5 now held. The two shares of $2.50 par value stock taken together will represent identically the same interest in the Company as each present share of $5 par value stock. The split-up and increase in number of shares of the Company's stock will not entail any change in the Company's capital and surplus accounts.

It is contemplated that the split-up, if authorized, will become effective on the same day the Annual Meeting of Stockholders is held, or shortly thereafter. You will be notified later as to the precise date the split-up is effective and will be requested to surrender your present $5 par value certificates in order to receive certificates for the new $2.50 par value stock on a two-for-one basis.

Included herewith are the Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, certified by the Company's auditors, Haskins & Sells.

A Notice of the Annual Meeting of Stockholders and a proxy form have been mailed to you. Unless you plan to attend the Annual Meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

DAVID F. EDWARDS,
President

January 30, 1951

NOTE: *The foregoing report and financial statements referred to therein are submitted for the general information of the security-holders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company.*

SACO-LOWELL SHO

CONSOLIDATED BALANCE SHE

ASSETS

CURRENT ASSETS:		
Cash		$ 2,767,418.44
United States Government obligations (at cost) and accrued interest thereon		7,821,194.94
Notes and accounts receivable:		
Notes receivable — customers	$ 10,236.60	
Accounts receivable — customers	3,899,549.48	
Other receivables	107,383.05	
Total receivables	$4,017,169.13	
Less reserves for doubtful accounts and for allowances, adjustments, etc.	379,671.78	3,637,497.35
Inventories (not in excess of the lower of cost or market value)		8,538,174.43
United States savings bonds held for sales to employees		9,806.25
Total current assets (see Note)		$22,774,091.41
MISCELLANEOUS ASSETS:		
Deposits with factory mutual fire insurance companies	$ 170,285.82	
Real estate mortgage note receivable	28,682.58	
Miscellaneous securities	12,501.00	211,469.40
REAL ESTATE, MACHINERY, EQUIPMENT, ETC. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)		7,260,382.55
DEFERRED CHARGES:		
Prepaid expenses	$ 57,243.70	
Other	64,086.51	121,330.21
TOTAL ASSETS		$30,367,273.57

Note: The Company has contracted for the construction in 1951 of a factory building in connection with which the cash outlay is expected to amount to about $3,000,000 (see page 4 of President's letter).

Subsidiary Companies

OF DECEMBER 3, 1950

LIABILITIES, RESERVES, AND CAPITAL

Current Liabilities:		
Accounts payable — trade		$ 1,718,315.99
Dividend payable		600,000.00
Customers' advance payments on sales contracts		1,516,805.50
Accrued liabilities:		
Federal income taxes	$ 2,558,973.36	
Social security, state, and local taxes	213,873.27	
Payrolls and vacation accruals	666,485.86	
Agents' commissions and royalties	198,258.40	
Miscellaneous	146,191.68	3,783,782.57
Total current liabilities		$ 7,618,904.06
Reserves:		
Amount appropriated for excess of replacement cost over original cost of plant property	$ 1,450,000.00	
For contingencies	1,000,000.00	2,450,000.00
Capital Invested In Business:		
Common stock (authorized, 600,000 shares of $5 each; issued and outstanding, 300,000 shares)	$ 1,500,000.00	
Capital surplus:		
Paid in by stockholders (no change during year)	5,736,637.90	
Earnings capitalized in connection with stock dividend in 1948	1,750,000.00	
Earned surplus	11,311,731.61	
Total capital invested in business		20,298,369.51
Total Liabilities, Reserves, And Capital		$30,367,273.57

SACO-LOWELL SHOPS

and Subsidiary Companies

Fiscal Year Ended December 3, 1950

SUMMARY OF CONSOLIDATED INCOME

Operating Profit Before Depreciation		$5,805,185.58
Provision For Depreciation		569,877.92
Operating Profit		$5,235,307.66
Add:		
Interest income	$113,784.09	
Discounts on purchases	77,315.83	
Miscellaneous income credits	31,319.26	222,419.18
Gross Income		$5,457,726.84
Deduct:		
Interest expense	$ 18,936.31	
Provision for social security and state taxes	425,776.52	
Miscellaneous income charges	4,491.47	449,204.30
Net Income Before Provision For Federal Tax On Income		$5,008,522.54
Deduct — Provision for Federal tax on income		2,100,000.00
Net Income For The Year		$2,908,522.54

SUMMARY OF CONSOLIDATED EARNED SURPLUS

Earned Surplus, November 27, 1949		$10,053,209.07
Add — Net income for the year		2,908,522.54
Total		$12,961,731.61
Deduct:		
Dividends	$1,350,000.00	
Amount appropriated for addition to reserve for excess of replacement cost over original cost of plant property	300,000.00	1,650,000.00
Earned Surplus, December 3, 1950		$11,311,731.61

HASKINS & SELLS
ACCOUNTANTS

80 FEDERAL STREET
BOSTON 10

ACCOUNTANTS' CERTIFICATE

Saco-Lowell Shops:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of December 3, 1950 and the related summaries of consolidated income and consolidated earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at December 3, 1950 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

January 30, 1951.

DIRECTORS OF SACO-LOWELL SHOPS

JOHN S. CHAFEE
Executive Vice President

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent of the Company

ROGER D. HALE
Director, Scott & Williams, Inc., and Penn Metal Co., Inc.

RALPH HORNBLOWER
Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Company

W. FRANK LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

THORVALD S. ROSS
President, Rivett Lathe & Grinder, Inc.

MALCOLM D. SHAFFNER
Vice President, Treasurer and Secretary

OFFICERS OF SACO-LOWELL SHOPS

DAVID F. EDWARDS
President

JOHN S. CHAFEE
Executive Vice President

W. FRANK LOWELL
Vice President

MALCOLM D. SHAFFNER
Vice President, Treasurer and Secretary

E. C. GWALTNEY
Vice President

J. L. TRUSLOW
Vice President

F. ROBBINS LOWE
Vice President

J. ARNOLD KIELY
Comptroller and Clerk

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.

INDEPENDENT PUBLIC ACCOUNTANTS

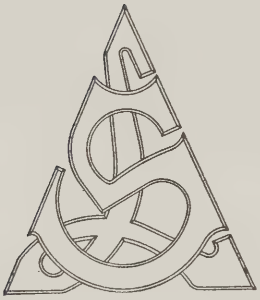
Haskins & Sells, Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company, Boston, Mass.

REGISTRAR

The First National Bank of Boston, Boston, Mass.



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SACO-LOWELL SHOPS

1951 Annual Report

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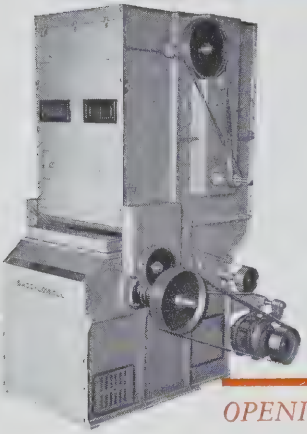
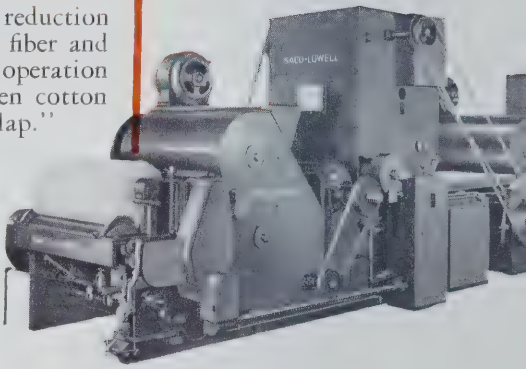


OPENING

The opening process is the first stage in yarn manufacture. Here the compressed fibers are partially separated and the impurities such as seed fragments, broken leaf, and dust are removed.

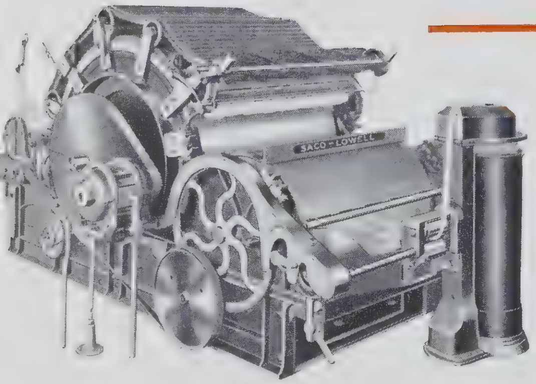
PICKING

In the picking process a further reduction of the stock towards the single fiber and a completion of the cleaning operation takes place. The clean and open cotton leaves the picker rolled into a "lap."



DRAWING

The weak, untwisted strands are then fed into the drawing frame. Sets of rollers draw the individual fibers into a parallel arrangement, and reduce the unit weight of the strand.



CARDING

The carding operation determines the character of the yarn. Here the fibers are separated and the short, weak fibers and waste material removed. The stock leaves the card as a "sliver".

FRONT COVER:

The cover photograph shows the new David F. Edwards plant at Saco, Maine. This modern plant, with nearly 300,000 square feet of floor space, is located on a site within two miles of the Company's other buildings in this area.

Also shown is a rare engraving, part of the Saco-Lowell Print Collection, giving a "BIRD'S-EYE VIEW OF THE CITIES OF BIDDEFORD AND SACO, as seen from the North East, 1875". The Company's operations in Maine originated in buildings constructed in this area and these can be seen on the print.

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SACO-LOWELL SHOPS
BOSTON, MASSACHUSETTS

DAVID F. EDWARDS
PRESIDENT

To the Stockholders

The net earnings after all charges were $3,220,167 or $5.36 per share of the outstanding stock. These earnings were only a little better than in the preceding year although the sales volume, on which they are based, was 32% larger, showing clearly how earnings in 1951 were squeezed between ceiling prices and steadily rising manufacturing costs joined with higher taxes. And this squeeze still continues with no predictable end in sight at present. Its probable effect on earnings in 1952 will be referred to later in this report under the heading "Outlook."

4FS. div 3 1950/51, ser. DF.

HIGHLIGHTS for	1951
Income before Taxes	$6,420,167
Federal Income Taxes	$3,200,000
Net Income	$3,220,167
Net Income Per Share	$5.36
Dividends Per Share .	$2.00
Net Worth	$24,768,537
Working Capital . .	$14,121,963
Number of Shareholders . . .	4,338

MANUFACTURING PLANTS

A new plant, which was started about a year ago and was mentioned in last year's Annual Report, is now finished except for certain auxiliary equipment not yet installed and is fully up to expectations. The Austin Company, which built it, estimated when the contract was placed that, exclusive of land, railroad sidings, and some other collateral items, the cost of the building would be $2,740,000. The final amount to be paid the contractor will not exceed $2,650,000, a very satisfactory performance indeed in a period of rising costs.

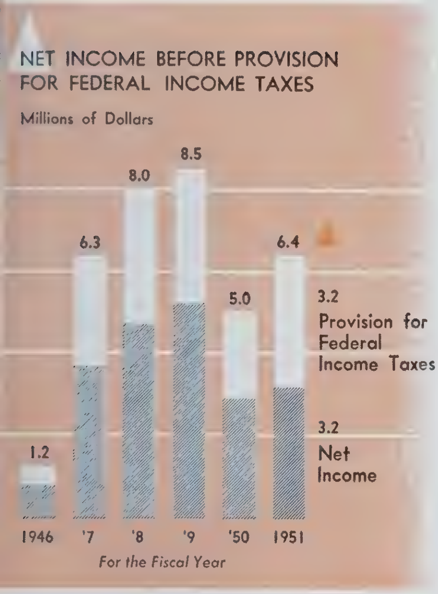
The new plant, located on a site about 175 acres in extent in Saco, Maine, is roughly 1/10 of a mile square and is all on one floor level thus doing away with the necessity of moving massive tonnages of heavy materials up and down between floors by elevators, and permitting the most advantageous utilization of space in the placing of equipment and the routing of production throughout the plant.

The defense program dominates the National Economy today. It has created a severe shortage of critical materials and is forcing a sharp curtailment of our production schedules on textile machinery. To compensate for this shrinkage in the production of our regular product, we have taken on a substantial amount of defense work and have dedicated the new building to the handling of it. By midyear it is expected that the new building will be utilized largely on the production of machine guns. This course has been followed in conformity with a commitment to Army Ordnance and because it seems likely to insure the most efficient use of the new plant and should hold to a minimum, for the duration of the defense effort, the moving about of equipment and costly general rearrangement within the old plants at a time when the volume of textile machinery production is declining steadily. It is probable also that as the year advances and the pinch of material shortages increases, we shall introduce an increasing amount of work outside our regular product line into our old plants to take the place of dwindling production of textile machinery. This experience is characteristic of companies building industrial equipment unless their equipment is required to tool and implement the expanding defense program. At the present time we are told by the Government Agencies concerned that additional textile machinery is not, at this time, essential to the defense program.

During the year the plant in Sanford, North Carolina, which is also adding defense work to its schedules, has been enlarged by about one-third and its operating arrangement improved. The Company has also purchased for $70,000 an excellent plant site of 230 acres on the southern outskirts of Asheville, North Carolina, a region which seems likely to have a steady industrial growth in the years to come. What the Company does with this tract and how large a plant may be built on it will be influenced and determined by the events of the next few years and the careful balancing of all the advantages and disadvantages of the Biddeford-Saco area in Maine with those in the Asheville area in North Carolina and elsewhere in the South. The existing plants of the Company, exclusive of the new plant just finished, contain about 1,500,000 square feet of floor space. The new plant contains a little less than 300,000 square feet, which is perhaps ¼ to ⅓ of the new, more efficient floor space which the Company will need ultimately to complete its rebuilding program.

NEW PRODUCT DESIGN

For many years the Company has carried on an extensive and very active program of research and product development. Many significant and valuable improvements have come out of this program, but the most valuable of them is a radically new type of spinning frame which has just been released for production after years of effort. Full-sized production installations of this new frame are now being made in a number of mills and will soon be in operation. There seems to be good evidence to support the belief that this new spinning frame has certain unmistakable advantages over spinning frames of conventional design and because of these advantages should have a steadily expanding market for years to come. This means much for the Company's future volume of sales because spinning frames of all types and sizes normally make up from ⅓ to ½ of the Company's total dollar volume of new machinery sales, exclusive of repair parts. However, it must be pointed out that this new frame cannot be built in substantial quantities until the present acute shortage of aluminum, bearings, and some other items has been ended or greatly eased.

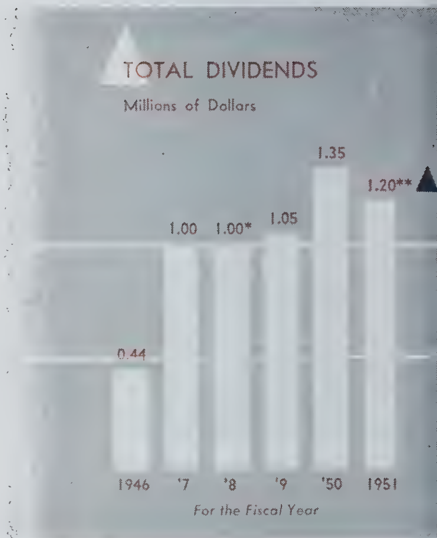

NET INCOME BEFORE PROVISION FOR FEDERAL INCOME TAXES

LABOR RELATIONS

As reported last year, the Company has entered into a five-year contract with its Union at Biddeford which does not expire until September 15, 1955. During the past year labor relations have been undisturbed. The escalation clause tied to the cost of living which is a basic provision in the collective bargaining agreement with the Union and a type of clause now widely used throughout industry, has resulted in successive increases totaling 13¢ per hour in wages during the year just ended. These cost-of-living increases have been approved by the Wage Stabilization Board, but a further increase called the "improvement factor" of 4¢ per year, which became effective on September 15th last, has not yet been allowed by the Board, and it is difficult to see how it can be justified and approved under the rulings set up for the control of wages and prices since our contract with the Union was made in September, 1950, and since the threat of inflation has become so menacing. The manner in which the leadership of organized labor will deal with this improvement factor, present in so many long-term union contracts, under the conditions existing today, will be a real test of the wisdom and foresight of the Union leadership, particularly in New England, a region which does not enjoy certain natural advantages to be found in other sections of the country.

During the past year, the provision for retirement compensation in our Collective Bargaining Agreement of September 15, 1950, which was referred to in the last Annual Report, has been developed into a formal and mutually acceptable plan, and participation in the plan has been extended to certain other hourly paid employees, not members of the union. The plan is underwritten by the Connecticut General Life Insurance Company in a manner which limits the overall total cost to the Company for the five-year period ending September 15, 1955, to an amount not exceeding $475,000.

Today the Company's employment is a little under 4,000, but this figure should begin to increase within a few months as defense work gets under way and grows in volume. The supervisory organization is working hard and effectively and with high morale in dealing with the many difficult problems growing out of the changes and reductions in our schedule of textile machinery and the introduction on a large scale into our manufacturing program of wholly new and unfamiliar defense products.

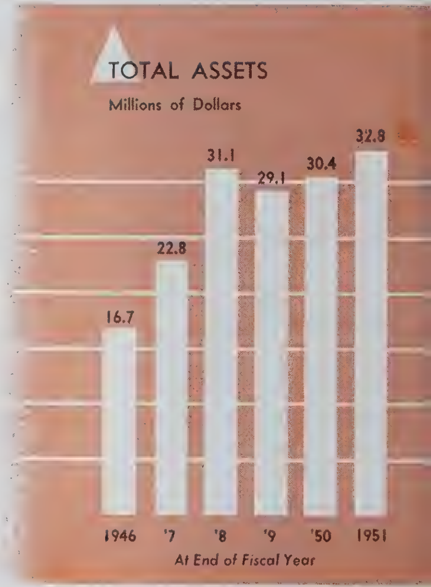


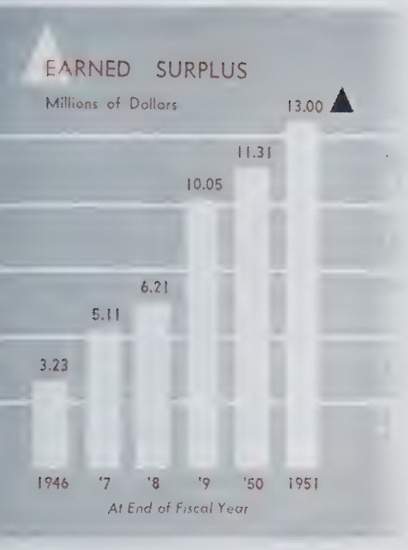
*PLUS 10% COMMON STOCK DIVIDEND—$2,000,000
**2 FOR 1 STOCK SPLIT IN 1951

FINANCIAL CONDITION

At the end of the fiscal year 1951, the Company's financial position was exceptionally strong and liquid notwithstanding the fact that during the year a total of $3,600,000 in cash was spent on plant and equipment, the greater part of it on the new building to which reference has already been made. The total of cash and short-term Government securities as compared with the end of last year is down by $2,232,707, but still stands at the substantial total of $8,284,711. The excess of current assets over current liabilities is $14,121,963, or $23.53 per share, as compared with $25.29 per share at the end of 1950, the reduction being due in large measure to the conversion of cash into the new building during the year.

Notwithstanding the Company's strong financial position, and to safeguard it further, an arrangement has been made with the New England Mutual Life Insurance Company under which during the period August 23, 1951, to August 23, 1952, the Company may borrow up to $2,000,000 for 15 years, subject to certain terms and conditions usually found in such agreements. For this standby credit, running for one year, the Company pays a fee of 1% on the unused portion of the credit and would pay from 3½% to 4% interest on any loan it may take up under the credit. This arrangement was made to insure the Company's ability to complete its new building and yet avoid any financial strain in the event earnings should fall off sharply in the first half of 1952 at a time when large cash outlays must be made to pay federal income taxes accrued at the end of 1951, as shown in the balance sheet reserve, of $4,093,632. Many companies whose earnings in 1951 were large and whose earnings in 1952 will be small may find it troublesome to make heavy federal income tax payments unless they start the year with substantial liquid resources because federal income tax payments must be made in cash and on time when due.



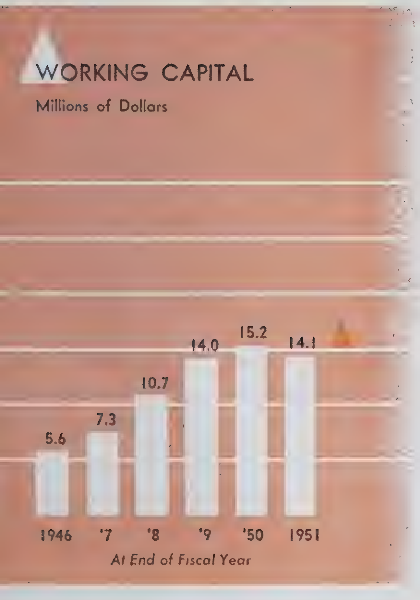


SALES AND BACKLOG

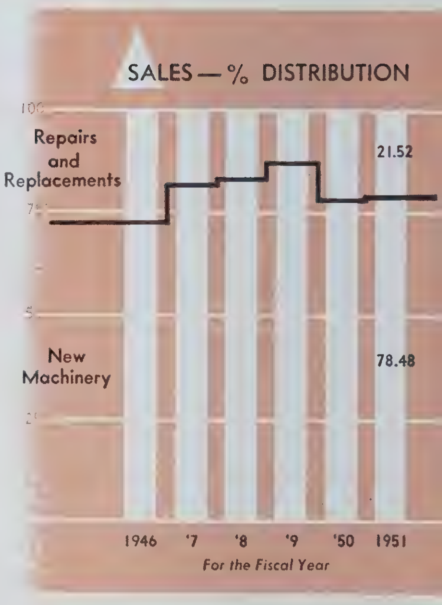
Beginning late last spring, another slump occurred in the textile industry. By midsummer this had affected noticeably the Company's intake of new orders. This slump has continued to the present time and, though some slight but encouraging signs of improvement are beginning to appear, it has reduced the Company's backlog of unfilled orders by about 40% below what it was at the beginning of last year and as yet there is no real evidence of recovery in the demand for new textile machinery.

THE OUTLOOK

As a result of the sharp decline in new orders and the critical material shortage, our production schedules on textile machinery projected through the first half of 1952 are greatly reduced, and present indications are that production and earnings during the first half will be correspondingly lower and well below those for the same period last year. It is hoped that by midsummer or soon thereafter defense work will have reached a volume that will be reflected in improved earnings, but it must be remembered that many months are required to tool and get going on substantial schedules of defense production and furthermore that under the provisions governing price redetermination and renegotiation of Government contracts, the margin of profit on defense work is likely to be modest. Unless the demand for textile machinery improves steadily during the next six months and unless the shortages of steel, aluminum, copper and bearings are greatly lessened, it now seems likely that by the end of the third quarter of the current year, perhaps as much as one-half the Company's sales volume will be made up of defense products.



As already indicated, it is too soon yet to foretell whether or not improvement may come about in the general condition of the textile industry during the current year, but even though such improvement should occur within a few months, it is impossible to say now that our business will be greatly benefited by it during the coming year because our industry has been told that it cannot expect to get much more than one-half of the critical materials needed to meet its requirements. It is possible that controls may be relaxed or changed somewhat in the latter part of the year, and some additional materials may be available from inventory, but any careful, realistic appraisal of the prospects for the first six months of 1952 must point to the conclusion that the production volume of textile machinery is not likely to exceed two-thirds of what it was in the corresponding period of last year, and might easily drop to one-half of last year's volume. As already stated, it is hoped that the volume of defense production will be considerable by midyear.

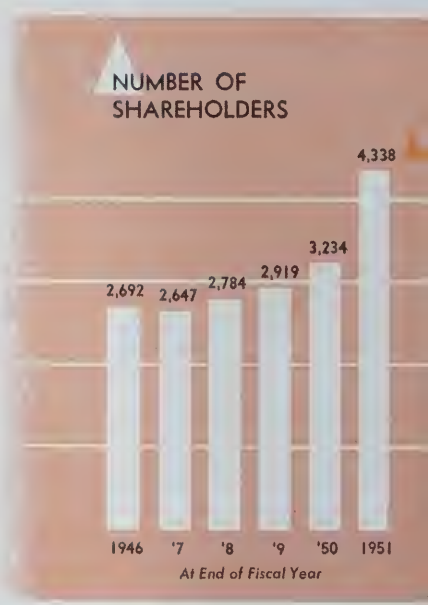


The upper millstone of price ceilings and the lower millstone of rising costs plus higher taxes are grinding away steadily at our profit margin. With wages rising steadily throughout industry generally, it seems inevitable that labor and material costs must continue to rise also. Whether ceiling prices can be raised to compensate for steadily rising costs remains to be seen. This is an example of the kind of uncertainty and difficulty that will affect earning power during 1952 under the conditions and controls now in effect.

In spite of these uncertainties and hazards, however, it is hoped and expected that our operating conditions will get better as the year advances and that earning power in the second half may be better than that in the first half. In any event, the Company believes its financial position is strong enough to enable it to go through a considerable period of uncertainty and reduced volume and earnings without financial strain.

RESTRICTED STOCK OPTIONS

With taxes as they are today, executive salaries have come to mean less and less to the men who receive them. It is virtually impossible for a business executive to achieve even a modest degree of financial independence by savings from his salary. Many corporations have tried to meet this situation and bind their keymen more closely to them by various kinds of pension plans and profit-sharing devices, and in particular by the use of what is known as "restricted stock options." In essence, these are quite simple. The Company sets aside a certain amount of its unissued stock and then offers to a carefully selected group of executives restricted options to purchase so many shares of stock at a price ranging from 5% to 15% below the market prevailing at the time the option is granted. The options ordinarily run for some period of years, usually not less than three nor more than ten. In effect, this gives the holder of the option a call on the number of shares allocated to him for some period of time at a predetermined price and so gives him a strong incentive to do his best to increase the value of the stock and thus increase the value of his option.



In 1950 the Federal Income Tax Law was amended in such manner as to lessen the tax burden on this kind of an arrangement and many corporations have adopted it in some form. Those who have not are more vulnerable to raids on their executive personnel than they would be if they had some kind of an option plan in effect. Your Directors feel that Saco-Lowell Shops should set up at once a carefully considered stock option plan and the granting of authority to do so is included as an item of business in the Notice of the Annual Meeting for this year.

The authority if granted will permit the setting aside of not over 35,000 shares of the Company's authorized but unissued common capital stock (subject to increase and adjustment for split-up) for issuance upon the exercise of restricted options and the establishment of a plan by the Board of Directors for the issuance from time to time of such options to officers and other employees to be selected in accordance with the plan, the option price to be not less than 95% of the market price of the stock at the time of the granting of the option to each individual. The amount of stock to be set aside is less than 6% of the total presently outstanding and an option price of not less than 95% of the market at the time of granting the option is moderate and in line with what many other companies have done. It is believed that a plan adopted under this authority will stabilize and strengthen the Company's executive staff and make it less vulnerable to offers of other companies seeking competent executives for their own organizations and will have a beneficial long-range effect on the management efficiency of the business.

ANNUAL MEETING

Included herewith are the Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, certified by the Company's auditors, Haskins & Sells.

A Notice of the Annual Meeting of Stockholders and a proxy form have been mailed to you. Unless you plan to attend the Annual Meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

David F. Edwards

January 31, 1952

President

How We Serve the Textile Industry

Contrary to a widespread mistaken impression, the design of textile machinery is rapidly and constantly changing as new conditions and materials affect the needs of our customers. Your Company has always been alert to the need for an adequate and well-organized program of research and development.

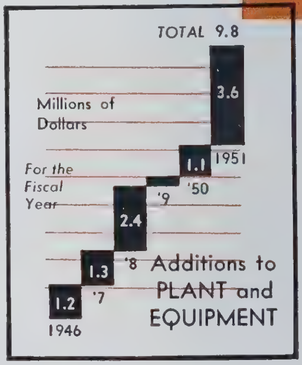
We maintain at Biddeford a corps of research specialists, each one of whom brings to bear on a given machine or group of machines in our line the experience of a working lifetime. The research and development department has its own drafting room, machine shop, testing laboratories, and pilot units of new designs of textile machinery in active operation.

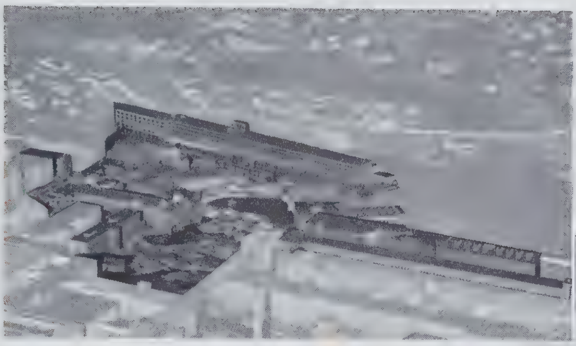
The broad strategy of machinery development is worked out in conjunction with the Improvement Program Committee. This Committee meets at least once each quarter and is made up of the six principal executives of the Company with the President as Chairman. All of these Company officers consider their work on the Improvement Program Committee as one of their most important duties. At each meeting, new projects are decided upon and the progress of continuing projects is discussed.

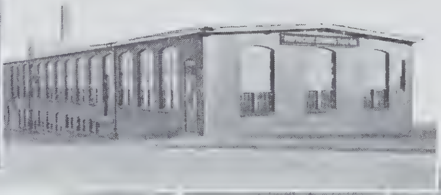
The development program operates within a budget total and appropriations for each project are discussed individually. These methods are designed to insure that development funds are not wasted, that the time of engineering personnel is used to best advantage, and that each machine in the line is kept abreast or ahead of competitive equipment.

In addition to the work done at Biddeford, a great deal of cooperative development activity is carried on in the mills of our customers. This procedure gives us the benefit of customer reaction to a new machine before it is put into large-scale production.

Research and machinery development are of particular importance at the present time in view of the rapid advances which are being made in the field of synthetics. We keep in close touch with the producers and users of the new fibers and are constantly designing new types of effective equipment to process these fibers.



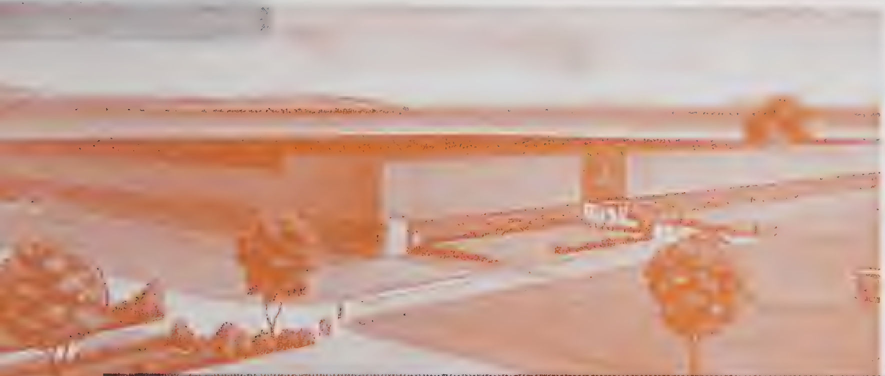




△ Plants at Biddeford and Saco, Maine

◬ Pawtucket Spinning Ring Co., Pawtucket, R. I.

▲ Sanford Division, Sanford, N. C.



SACO-LOWELL SHOPS

NEW PLANT IN SACO, MAINE
Upper Left Photo — Interior view
Center — Architectural drawing
Bottom Photo — The entrance

Accountants' Certificate

HASKINS & SELLS
ACCOUNTANTS

80 FEDERAL STREET
BOSTON 10

SACO-LOWELL SHOPS:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary companies as of December 2, 1951 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at December 2, 1951 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

January 22, 1952.

Summary of Consolidated Income

Fiscal Years Ended	December 2, 1951	December 3, 1950
Operating Profit Before Depreciation	$ 7,444,883	$ 5,805,185
Provision For Depreciation	621,953	569,878
Operating Profit	$ 6,822,930	$ 5,235,307
Add:		
Interest earned	$ 85,269	$ 113,784
Discounts on purchases	113,131	77,316
Miscellaneous income credits — Net	13,941	26,828
Total	$ 212,341	$ 217,928
Gross Income	$ 7,035,271	$ 5,453,235
Deduct:		
Interest expense	$ 6,676	$ 18,936
Provision for social security and state taxes	608,428	425,776
Total	$ 615,104	$ 444,712
Income Before Provision For Federal Tax On Income	$ 6,420,167	$ 5,008,523
Provision For Federal Tax On Income (no excess profits tax incurred)	3,200,000	2,100,000
Net Income For The Year	$ 3,220,167	$ 2,908,523

Summary of Consolidated Earned Surplus

Fiscal Years Ended	December 2, 1951	December 3, 1950
Earned Surplus At Beginning Of Year	$11,311,732	$10,053,209
Add — Net income for the year	3,220,167	2,908,523
Total	$14,531,899	$12,961,732
Deduct:		
Cash dividends	$ 1,200,000	$ 1,350,000
Amount appropriated for addition to reserve for excess of replacement cost over original cost of plant property	300,000	300,000
Total	$ 1,500,000	$ 1,650,000
Earned Surplus At End Of Year	$13,031,899	$11,311,732

Consolidated Balance She

ASSETS

	December 2, 1951	December 3, 1950
Current Assets:		
Cash	$ 4,534,711	$ 2,767,418
United States Government obligations (at cost)	3,750,000	7,750,000
Notes and accounts receivable:		
Notes receivable — customers	229,046	10,237
Accounts receivable — customers (less reserves — 1951, $376,494; 1950, $379,672)	3,784,366	3,519,878
Other receivables	145,656	197,021
Inventories (not in excess of the lower of cost or market value)	9,740,416	8,538,174
United States savings bonds held for sale to employees	17,625	9,806
Total current assets	$22,201,820	$22,792,534
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 208,877	$ 170,286
Sundry notes receivable	88,740	35,770
Travel advances	15,557	12,369
Miscellaneous securities (less reserve)	12,501	12,501
Total miscellaneous assets	$ 325,675	$ 230,926
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values which do not purport to represent either cost or presently realizable or replacement values)	$10,255,569	$ 7,286,570
Prepaid Expenses (principally insurance)	$ 65,330	$ 57,244
Total Assets	$32,848,394	$30,367,274

ACO-LOWELL SHOPS and Subsidiary Companies

of December 2, 1951 and December 3, 1950

LIABILITIES, RESERVES and CAPITAL

			December 2, 1951	December 3, 1950
Current Liabilities:				
Accounts payable			$ 1,360,882	$ 1,718,316
Dividend payable			450,000	600,000
Customers' advance payments on sales contracts			595,827	1,516,806
Accrued liabilities:				
Federal income taxes			4,093,632	2,558,973
Social security, state, and local taxes			275,086	213,873
Payrolls and vacation pay			663,285	666,486
Agents' commissions			284,828	189,918
Other accruals			356,317	154,532
Total current liabilities			$ 8,079,857	$ 7,618,904
Reserves:				
Amount appropriated for excess of replacement cost over original cost of plant property			$ 1,750,000	$ 1,450,000
For contingencies			1,000,000	1,000,000
Total reserves			$ 2,750,000	$ 2,450,000
Capital Invested In Business:				
Common stock:				
	1951	1950		
Par value per share	$2.50	$5.00		
Authorized shares — number	1,200,000	600,000		
Outstanding shares — number	600,000	300,000	$ 1,500,000	$ 1,500,000
Capital surplus:				
Paid in by stockholders			5,736,638	5,736,638
Earnings capitalized in connection with stock dividend in 1948			1,750,000	1,750,000
Earned surplus			13,031,899	11,311,732
Total capital invested in business			$22,018,537	$20,298,370
Total Liabilities, Reserves, and Capital			$32,848,394	$30,367,274

Comparative Statistics

	1951	1950	1949
OPERATIONS			
Income Before Federal Taxes On Income	$6,420,167	$5,008,523	$8,496,351
Federal Taxes On Income	3,200,000	2,100,000	3,300,000
Net Income	3,220,167	2,908,523	5,196,351
* Per share of common stock	5.36	4.84	8.66
Cash Dividends On Common Stock	1,200,000	1,350,000	1,050,000
* Per share of common stock	2.00	2.25	1.75
Earnings Retained For Use In Business	2,020,167	1,558,523	4,146,351
FINANCIAL CONDITION			
Total Assets	$32,848,394	$30,367,274	$29,125,180
Current Assets	22,201,820	22,792,534	21,976,389
Total Liabilities	8,079,857	7,618,904	7,935,333
Current Liabilities	8,079,857	7,618,904	7,935,333
Net Worth (based upon book values)	24,768,537	22,748,370	21,189,847
Working Capital	14,121,963	15,173,630	14,041,056
Wages And Salaries	$17,193,328	$14,382,992	$15,400,796
Number Of Shareholders At End Of Year	4,338	3,234	2,919

* Based upon 600,000 shares of common stock outstanding at December 2, 1951.

† Represents net refund of $1,336,265 of Federal taxes resulting from carry back of 1945 loss to prior tax years, less $8,000 provision for subsidiary company.

‡ Before deducting $600,000 provision for contingencies charged against income in 1942.

SACO-LOWELL SHOPS and Subsidiary Companies

1948	1947	1946	1945	1944	1943	1942
$8,000,559	$6,335,664	$1,227,485	$ 1,310,162	$4,180,799	$4,229,927	‡$2,938,054
3,300,000	2,500,000	450,000	† 1,328,265	#3,350,000	#3,525,000	1,430,000
4,700,559	3,835,664	777,485	18,103	830,799	704,927	‡1,508,054
7.83	6.39	1.29	.03	1.38	1.17	2.51
1,000,000	1,000,000	437,500	§374,354	§541,534	§497,509	§623,809
1.66	1.66	.72	.62	.90	.82	1.03
3,700,559	2,835,664	339,985	356,260	272,572	172,358	843,542
$31,129,928	$22,811,442	$16,698,669	$12,739,341	$15,924,013	$15,512,206	$12,302,008
23,434,724	16,782,756	11,635,259	8,788,328	11,768,323	11,725,850	8,740,576
14,086,433	9,468,506	6,191,397	2,572,055	5,425,047	5,285,812	2,273,231
12,736,433	9,468,506	6,191,397	2,572,055	5,425,047	5,285,812	2,273,231
17,043,495	13,342,936	10,507,272	10,167,286	10,498,966	10,226,394	10,028,777
10,698,291	7,314,250	5,443,862	6,216,273	6,343,276	6,440,038	6,467,345
$19,119,306	$13,847,451	$10,151,296	$7,755,466	$7,662,252	$7,491,309	$6,815,108
2,784	2,647	2,692	2,811	2,522	2,202	1,836

§ Dividends were also paid on preferred stock (since retired) as follows—1942, $40,703; 1943, $35,060; 1944, $16,693; 1945, $9.

# Includes provision for refund to U. S. Government resulting from renegotiation of war contracts.

Saco-Lowell Shops

DIRECTORS

DAVID F. EDWARDS
President

EDWARD S. FRENCH
President, Boston & Maine Railroad

FRANK J. HALE
Retired, Formerly General Agent

ROGER D. HALE
Director, Scott & Williams, Inc. and Penn Metal Co., Inc.

RALPH HORNBLOWER
Partner, Hornblower & Weeks

DAVID H. HOWIE
Vice President, Fiduciary Trust Co.

ARTHUR W. KIMBELL
President, United-Carr Fastener Corp.

W. FRANK LOWELL
Vice President

CHARLES F. MILLS
Vice President, The First National Bank of Boston

JOHN T. NOONAN
Herrick, Smith, Donald, Farley and Ketchum

THORVALD S. ROSS
President, Rivett Lathe & Grinder, Inc.

MALCOLM D. SHAFFNER
Vice President, Treasurer and Secretary

PHILIP H. THEOPOLD
Partner, Minot, Deblois & Maddison

OFFICERS

DAVID F. EDWARDS	*President*
W. FRANK LOWELL	*Vice President*
MALCOLM D. SHAFFNER	*Vice President, Treasurer and Secretary*
J. L. TRUSLOW	*Vice President*
J. ARNOLD KIELY	*Comptroller and Clerk*
F. GORHAM BRIGHAM, JR.	*Asst. Treasurer and Asst. Secretary*
W. D. OLIVER	*Asst. Secretary*
DOUGLAS H. SEARS	*Asst. Comptroller*

GENERAL COUNSEL

HERRICK, SMITH, DONALD, FARLEY AND KETCHUM *Boston, Mass.*

TRANSFER AGENT

BOSTON SAFE DEPOSIT & TRUST COMPANY *Boston, Mass.*

ACCOUNTANTS

HASKINS & SELLS *Boston, Mass.*

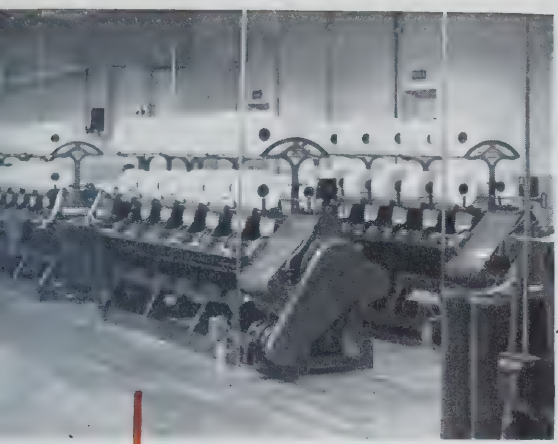
REGISTRAR

THE FIRST NATIONAL BANK OF BOSTON *Boston, Mass.*

PRINTED IN U. S. A.

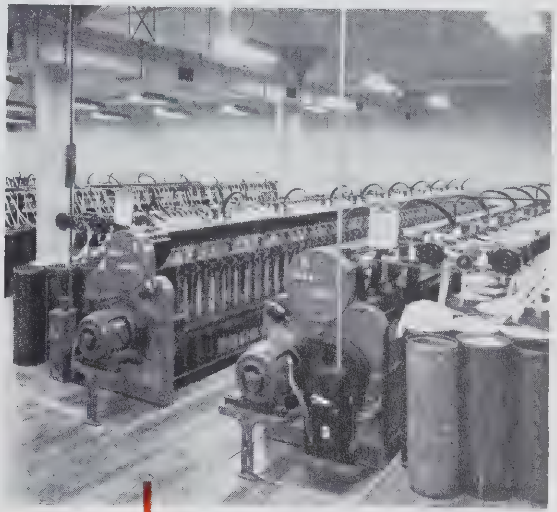
UNIVERSITY PRESS, INC. CAMBRIDGE MASS.

PICK-S, New York, N. Y.



COMBING

Combed yarns are characterized by their brightness, evenness, and strength. The combing process removes the short, weak, and immature fibers, leaving the long strength-giving ones in an orderly, well-arrayed strand.



ROVING

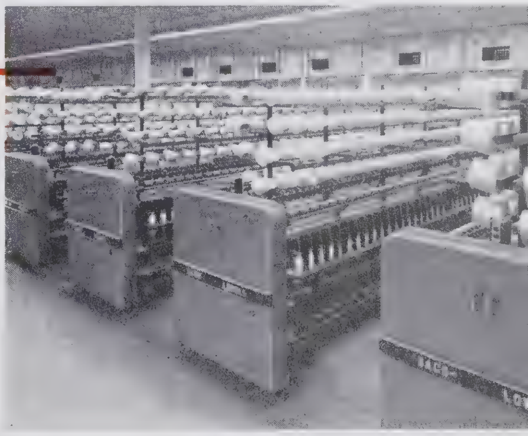
The untwisted strand of fibers, having been arranged in a parallel manner, is further reduced in size by drafting, while a slight amount of twist is inserted to give it the strength required for handling.

SPINNING

For the final process, the strands of fibers are reduced to the desired size and a certain amount of twist is imparted, thus forming yarn.

TWISTING

The twisting process combines two or more spun yarns into a single strand. This operation may range from the twisting of two yarns to the combining of twelve or more.



Sales Offices: Charlotte, North Carolina
Greenville, South Carolina
Atlanta, Georgia

Plants: Biddeford and Saco, Maine
Sanford, North Carolina
Pawtucket, Rhode Island

WAKEFIELD AVE.
LEWIS AVE.
GRAY ST.
HENRY ST.
RUMERY ST.
WHARF ROAD
COMMON
BARTLETT ST.
FRONT
BOSTON & MAINE R.R.
JAMES
WINTER ST.
ST.
WHARF
FREE ST.
PEPPERELL SQUARE
HIGH ST.
BEACH ST.
SCHOOL ST.
ST.
STORER ST.
CUTTS AVE.
ELM
PLEASANT ST.
SUMMER ST.
MAIN ST.
ST.

SACO-LOWELL SHOPS

60 BATTERYMARCH STREET
BOSTON, MASSACHUSETTS

Sa 14
1951/52

SACO-LOWELL SHOPS

1952
Annual Report

SACO-LOWELL SHOPS

Opening the New Edwards Plant

A distinguished group of Government officials and representatives of the United States Army Ordnance Department were present at the opening day ceremonies on February 22, 1952. Dignitaries present included His Excellency Frederick G. Payne, Governor of Maine, United States Senator Owen Brewster, Major General A. B. Quinton, Jr., Special Assistant to the Chief of Ordnance, U. S. Army, Colonel John S. Pfeil, District Chief, Boston Ordnance District, Colonel Douglas D. Ludson, Deputy District Chief, Boston Ordnance District, Myron E. Savage, Mayor of Saco, and Judge Louis B. Lausier, Mayor of Biddeford.

David F. Edwards, now Chairman of the Board, is shown cutting the ribbon and officially opening the new plant.

The YEAR in REVIEW

	1952	1951
Income before Taxes	$107,974	$6,420,167
Federal Income Taxes	$50,000	$3,200,000
Net Income	$57,974	$3,220,167
Net Income Per Share	$0.10	$5.36
Dividends Per Share	$1.00	$2.00
Net Worth	$24,226,511	$24,768,537
Working Capital	$16,168,780	$14,121,963
Number of Stockholders	4,812	4,338

FRONT COVER

The cover photograph shows the main entrance of the David F. Edwards plant at Saco, Maine.

Also shown is a rare engraving, giving a "BIRD'S-EYE VIEW OF THE CITIES OF BIDDEFORD AND SACO" in 1875. The Company's operations in Maine originated in buildings constructed in this area.

SACO-LOWELL SHOPS

BOSTON, MASSACHUSETTS

MALCOLM D. SHAFFNER
PRESIDENT

TO THE STOCKHOLDERS

In 1952, the Company's sales of textile machinery declined 44% from the levels of the preceding year — a direct result of depressed conditions in the textile industry. This sharp drop in the volume of our regular business, together with increased wage rates and frozen prices for our products, virtually wiped out our earnings which amounted to only $57,974 after Federal taxes.

As is the case with most producers of heavy industrial equipment, the Company has relatively high operating costs of a fixed nature which neither increase nor decrease substantially when the level of plant activity changes. When sales volume falls off as drastically as was the case in the past year, these high fixed charges cut deeply into our operating profits. At the same time, Government controls and depressed market conditions have held the price of textile machinery at the level prevailing on December 11, 1950, notwithstanding the fact that since then wage rates and costs of material have risen steadily. This unfavorable earnings record occurred despite vigorous efforts directed at cost reduction, on the one hand, and at sales promotion on the other. Unfortunately, the Company's experience in attempting to relate wage costs in Biddeford to the realities of our business situation was most unsatisfactory, and provides little ground for belief that union leaders and members are aware of the need for genuine cooperation on their part if the Company is to continue to operate on its present scale in the Biddeford-Saco area.

While sales of ordnance items to the Government increased in 1952, the increase was equivalent to only a fraction of the shrinkage in our textile machinery sales. Since we were only beginning to get our defense production lines organized toward the end of 1952, this defense business, instead of bolstering profits, actually resulted in a loss to the Company on the basis of stated contract prices. These prices are subject to redetermination, however, and it is hoped that an upward revision will be granted which will enable us to recoup a portion of the loss.

Two broad and pertinent observations are suggested by the unfavorable course of our business over the past year. The first of these concerns the wisdom of a long-range, conservative, and consistent fiscal program. In the Company's Annual Report for the year 1949, the statement was made, "It seemed prudent and sensible to retain the larger part of these earnings in the business, among other

FEB 16 1953

reasons because . . . our durable goods type of business being much more fluctuating than most consumer goods industries, it is necessary that the Company accumulate earnings in good years to carry it safely through the inevitable lean years." Because this policy has been consistently followed in the past, it was possible for the Company to pay its regular dividend of $1.00 per share in 1952, even though earnings for the year were insufficient for this purpose. The second observation takes the form of a reminder that very often developments of considerable promise are not reflected in the earnings statement for a given year. In 1952, after many years of extensive research and development, Saco-Lowell introduced the new Gwaltney spinning frame to the textile industry. The Gwaltney frame embodies a unique departure in principle from existing models, and offers the mill owner reduced labor costs and a higher quality of product. Substantial numbers of progressive mills have placed orders for the Gwaltney frame, but earnings in 1952 were not significantly increased through sales of this new machine.

The year 1952 also saw the opening of the new David F. Edwards Plant and production was commenced there on a Government defense contract for the manufacture of machine guns. While this large-scale undertaking contributed nothing to 1952 earnings, it did hold our manufacturing organization together and absorbed hundreds of our skilled employees — men and women who would otherwise have faced certain lay-off as the volume of textile business dwindled. At the same time, the specialized production skills which have been developed laboriously over past months should enable us henceforth to show a continuing improvement in the handling of our backlog of Government business.

In another and quite different sense 1952 constituted a significant milepost in Company history. In July, after a quarter century of energetic and creative leadership, David F. Edwards retired from the Presidency and active management of the business and was elected Chairman of the Board of Directors, in which capacity we continue to receive the benefit of his wise counsel and rich experience. At the same time, the undersigned, then Executive Vice President, was elected President.

In conclusion we wish to express our sincere gratitude to those who, in full realization of the need for extraordinary effort, labored effectively and faithfully in the Company's employ throughout the difficult year just ended.

A Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, together with more detailed information concerning last year's business are presented in the following pages of this report.

January 26, 1953.

Report on Operations

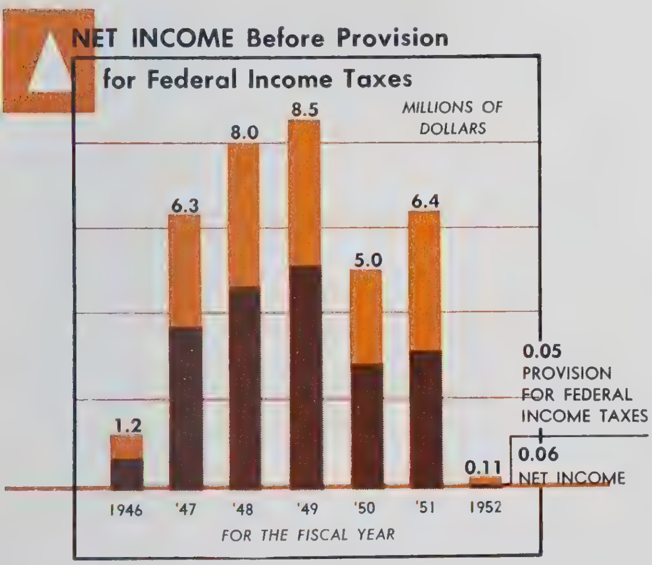
Total sales of all products in 1952 declined 34% from the levels of the preceding year. Although defense products were of continuing importance in the latter months of the year, that volume was not sufficient to make up for a 44% decrease in textile machinery sales.

Net income after taxes amounted to $57,974, equivalent to $.10 per share on the 600,000 shares presently outstanding. In 1951, net income after taxes was $3,220,167, equivalent to $5.36 per common share.

In 1952 the Company declared only the regular dividend of $1.00 per share. Dividends in 1951 included an extra disbursement of $1.00 making the total for that year $2.00 per share.

MARKET CONDITIONS

The slump which commenced in the textile industry late in the spring of 1951 continued into and throughout 1952. Both spindle hours operated and total active spindles in the United States declined more or less steadily from January, 1951, to June, 1952. In some segments of the industry volume picked up in mid-1952, but mill reports generally indicated that despite increased activity, profits were unsatisfactory. For example, one of the leading textile manufacturers reported, in its annual report covering the fiscal year ending June 30, 1952, that selling prices on some fabrics were down 35%, with no compensating reduction in manufacturing costs. This situation appears to have been widespread, and accounted for the reluctance of mills to place new machinery orders.



The textile depression has been world-wide, and foreign mills have been plagued with the additional burden of an increasing shortage of dollars with which to purchase American cotton and machinery. These and other overriding economic obstacles make it virtually impossible for us to expect our export sales in the foreseeable future to command their past place of importance in our total business, in spite of the favorable acceptance of Saco-Lowell machinery abroad and its adaptability to foreign operating conditions.

PLANT REPLACEMENT PROGRAM

The recently opened Edwards Plant in Saco was the first step in the Company's long-range plant replacement program, and accounts for somewhat less than one-third of the goal contemplated by that program. Saco-Lowell has under active consideration the rehousing and possible relocation of its older manufacturing facilities presently situated in the Biddeford-Saco area, the output from which accounted for three-quarters of our total 1952 sales volume. Our ultimate objective is to replace these multi-story buildings with modern, one-story structures, reducing our total floor space requirements to conform, on a single-shift operating basis, with average rather than with peak activity levels.

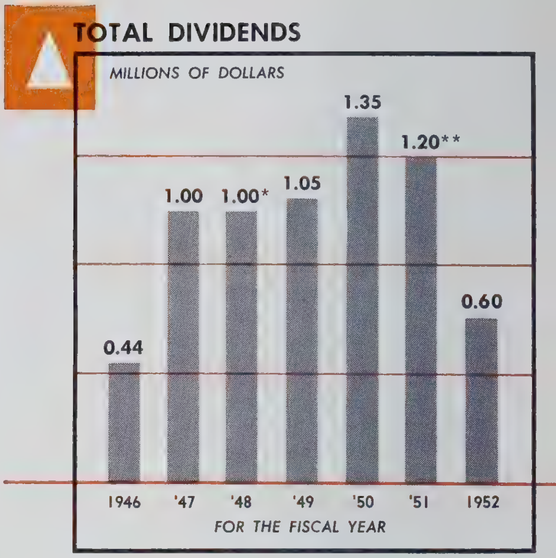
In 1952 production at our Sanford, North Carolina, plant (acquired in 1948) accounted for approximately one-sixth of the Company's total sales volume. Even after making allowance for certain operating differences in overhead, the results at Sanford were much more satisfactory than in Biddeford.

Foreign sales could conceivably influence the Company's building program. As noted earlier in this report, our foreign business has encountered increasing obstacles. In Brazil, for instance, where the Company in other years has sold a considerable quantity of machinery, an import ban was placed on textile machinery, effective January 1, 1952. This legislation, inspired by a shortage of dollars, cut us off from a large potential market and prompted us to investigate the possibilities of building a small assembly plant in that country. While no further action has been taken on this particular proposal, the importance of our foreign business and the high wage levels in the United States make it imperative that we take every practicable protective measure.

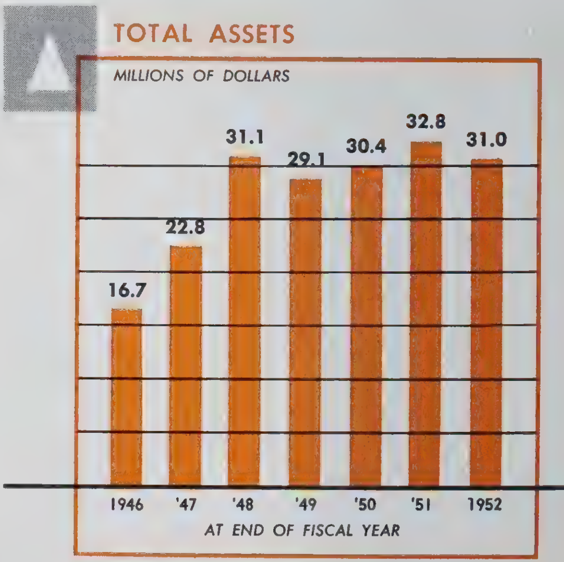
LABOR RELATIONS

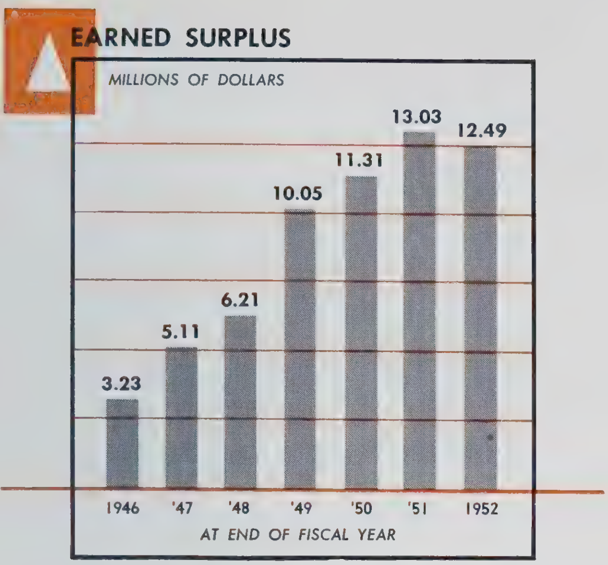
Under the cost-of-living escalator clause in our contract of September, 1950 with the Textile Workers Union of America (C.I.O.), current wage rates are increased by 16c. per hour. Further "improvement factor" wage increases of 4c. per hour, effective September 15, 1951, and an additional 4c. per hour, effective September 15, 1952, were approved by the Wage Stabilization Board and are now a part of our wage structure.

While adhering scrupulously to our contractual obligation to the union to pay these increases, we feel strongly that in the present competitive and market situation they are not warranted and ultimately will be harmful to our employees, to the Company and to the communities in which we operate. The Company's understanding had been that the union leaders, who on other occasions have indicated their intent to improve rather than aggravate the Company's competitive position, would not regard the contract clauses as a guarantee of automatic wage increases granted at stated intervals irrespective of the economic facts under which the Company has to operate. The granting of the improvement factor increases together with the cost-of-



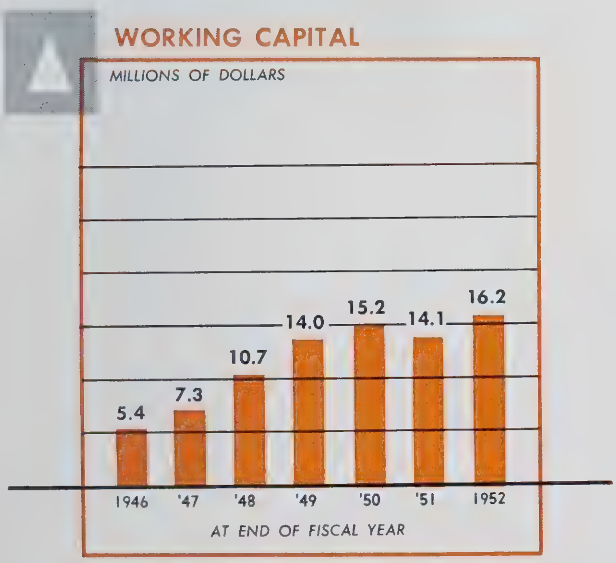
*PLUS 20% COMMON STOCK DIVIDEND—$2,000,000
**2 FOR 1 STOCK SPLIT IN 1951




EARNED SURPLUS

living increases places us at a distinct cost disadvantage in comparison with our competition in the North as well as with the smaller but numerous and expanding competitive shops of the Southern states. Granting of the increases, moreover, constitutes a serious worsening of the cost-price squeeze which already has affected the Company's operating results in an extremely adverse degree.

We are invoking, therefore, the wage reopening provision set up in the union agreement of September, 1950, for meeting just such a condition. Under this provision we are asking for a decrease in the rates of pay which have been established by the collective bargaining agreement, sufficient to make them comparable with the rates of our principal competition. It is hoped that such a revision can be resolved through negotiation with the union representatives. If not, by prior agreement of the parties, the question of downward wage revision is referred to arbitration.


WORKING CAPITAL

Over the past year the decline in our sales of textile machinery necessitated reductions in the working force employed in that branch of the business. Fortunately, these essential adjustments were made without penalizing the community, since our defense work created enough new jobs to more than compensate for the cutback in textile machinery schedules. The total number of employees on our rolls increased from about 3,800 at the close of 1951 to approximately 4,500 at the end of 1952. At this latter date some 1,500 men and women were employed exclusively on defense work, where their efforts, owing to the long tooling-up period, had not begun to add to the Company's earning power.

NEW PRODUCTS

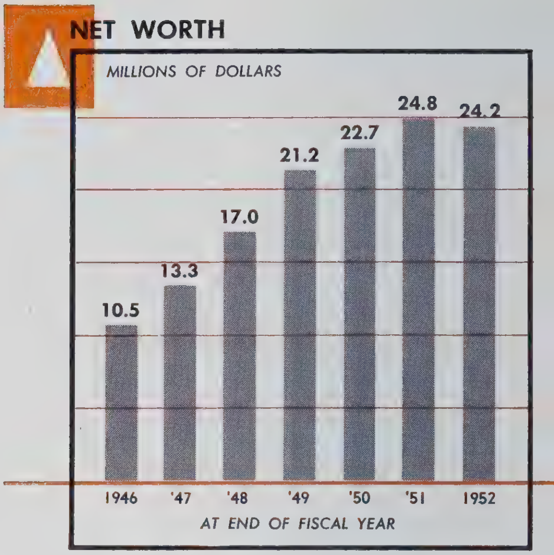
Significantly, over one-third of sales made in the past fiscal year were of machines unknown to our customers four years ago. Predominant in our 1952 machine sales were the new roving and spinning frames for both worsted and synthetic fibers, together with the previously mentioned Gwaltney spinning frame.

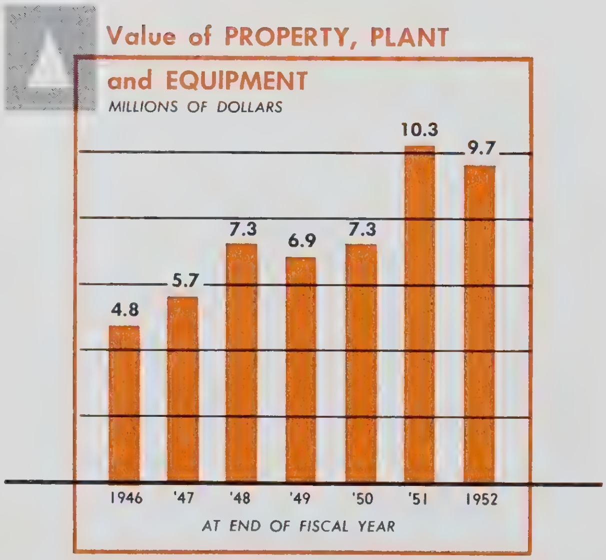
Many mills, both in the North and South, have installed our new worsted and synthetic yarn machinery, which is an extension of recent developments in cotton yarn equipment. While initially developed in the expectation of producing yarns at much lower costs, our new roving and spinning frames have demonstrated other achievements. In every installation, the machines have come to be valued not only for the lower production costs involved but, equally important, as a means of producing yarn of a quality not possible with the machinery used formerly.

Before the beginning of 1952, we had a number of the Gwaltney spinning frames operating on an experimental basis in several well-known mills under a variety of conditions and producing a wide range of yarns. Sales of the frame were made in a limited way in 1952 in order that we might obtain full confirmation from the actual experience of a selected group of users that the Gwaltney frame was a significant contribution to the textile industry. While this policy has undoubtedly restricted our sales in a period when volume was urgently desired, it has maintained Saco-Lowell's reputation for designing, manufacturing and selling only thoroughly proven equipment.

RESEARCH AND DEVELOPMENT

In spite of adverse conditions and consequent loss of earnings, we have continued the organization, personnel and expenditures for research and development. The validity of this policy and the worth of such a long-term investment is particularly well illustrated by the additions made to our line over the past four years.


NET WORTH


Value of PROPERTY, PLANT and EQUIPMENT

FINANCIAL CONDITION

On November 30, 1952, the end of our fiscal year, current assets exceeded current liabilities by $16,168,780, or $26.95 per share. Twelve months' previously, working capital was $14,121,963, or $23.54 per share. This increase is almost exactly accounted for by the addition of $2,000,000 in cash from the proceeds of a long-term loan made to us by the New England Mutual Life Insurance Company on August 22, 1952.

While our working capital position was reasonably adequate at the time the loan was made, it was expected that the burden of financing our ordnance contracts would be heavy. Furthermore, the Company was anxious to maintain a high degree of liquidity at all times in order to take advantage of opportunities for the extension or modification of its regular business. These circumstances were reinforced by the fact that the cost of borrowing money was increasing and the Company would probably not be able to obtain such favorable terms for some time to come.

Simplified Balance Sheet

AT END OF FISCAL YEAR, NOVEMBER 30, 1952

WHAT WE OWN . . .

	Thousands of Dollars	Percent
Cash and government securities	$ 5,886	19.0%
Owed us by others . . .	$ 5,637	18.2%
Goods on hand	$ 9,415	30.4%
Property and equipment (less wear and tear) .	$ 9,696	31.3%
Other assets	$ 362	1.1%
	$30,996	100.0%

WHAT WE OWE . . .

	Thousands of Dollars	Percent
Amounts owed which are due for payment in 1953	$ 4,770	15.4%
Long-term debt	$ 2,000	6.4%
Stockholders for their investment in the business	$ 8,986	29.0%
Stockholders for income earned in prior years and retained in the business	$15,240	49.2%
	$30,996	100.0%

OUTLOOK

As a result of limited demand for new machinery throughout 1952, our production schedules projected through the first half of 1953 are greatly reduced from a year ago. Since several months elapse between the time we receive an order and ship the machinery, a very sharp revival in demand, not now foreseen, would have to take place in the near future in order for us to increase our total 1953 volume over 1952 levels. Neither does it appear likely that obstacles to foreign trading will be resolved in time to benefit 1953 sales. Competition from foreign machinery manufacturers is also increasing, both within this country and abroad, as a result of depreciated foreign currencies, low foreign wage scales, and inadequate domestic tariff rates which are far lower than would seem to be justified by the difference between foreign wage scales and our own. If, however, confidence is restored in the textile industry, the improved labor-saving features of our new machinery should prove increasingly attractive to the mills.

STOCKHOLDERS

As of the close of the fiscal year 1952, Saco-Lowell was owned by stockholders residing in 31 States, the District of Columbia, Hawaii, Canada, and Mexico.

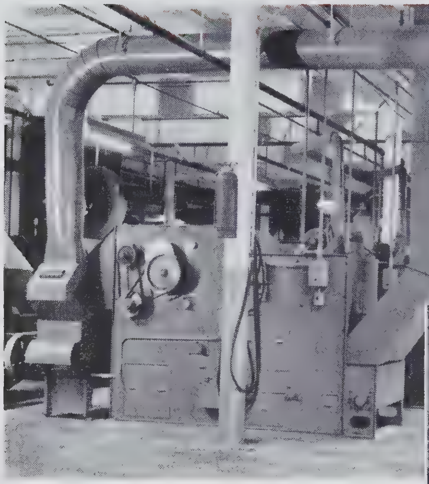
The past several years have seen a steady increase in the number of individuals and institutions which have become members of the Saco-Lowell family of stockholders. Five years ago, our stockholders' list numbered 2,647. Last year it totalled 4,338, and now exceeds 4,800, a number considerably larger than that of our employees.

It will be the continued endeavor of the management to justify this gratifying confidence in the future of the Saco-Lowell Shops.

ANNUAL MEETING

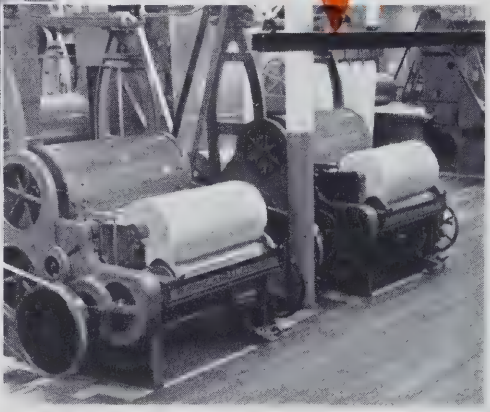
A notice of the Annual Meeting of Stockholders and a proxy form have been mailed to you. Unless you plan to attend the Annual Meeting in person, YOU ARE URGED TO SEND IN YOUR PROXY PROMPTLY.

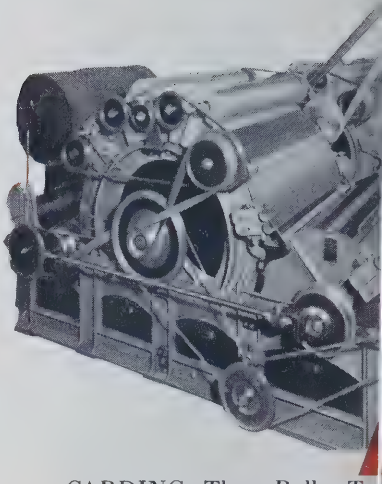
Serving the Textile Industry



OPENING: The new opening room at the Bates Manufacturing Co. is typical of the modern installations designed by Saco-Lowell engineers. This equipment is designed to separate the cotton fibers and remove broken leaf, seed fragments, dust and other impurities.

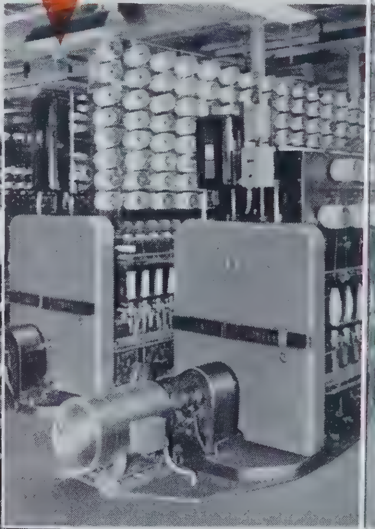
PICKING: The function of these pickers is the completion of the cleaning operation and the formation of a "lap" which makes the cotton easier to transport for further processing.



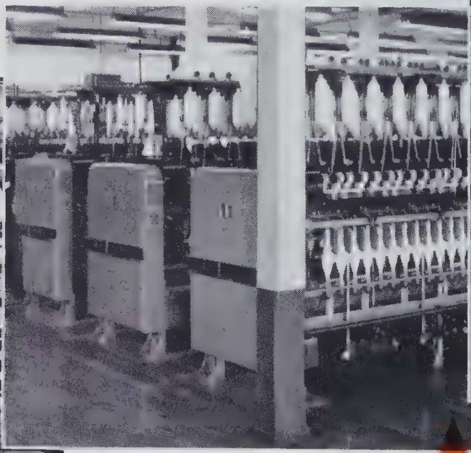


CARDING: These Roller To
at the Mooresville Cotton Mill are
engineering achievement. They ha
designed to process synthetic staples
ing lengths and composition without
any damage or creating excessive w

TWISTING: The new gl
and fiber plant of the Owens-Cornin
glas Corporation contains a large nu
Saco-Lowell twisters. In twisting, two
spun yarns are combined into a singl



ROVING: Yarns of the highest count and quality are being produced on one-process roving frames. This Saco-Lowell development has saved millions of dollars for our customers.



SPINNING: Saco-Lowell resear
ment work in the art of worsted spinni
favorable results. Illustrated here ar
the Lebanon Knitting Mill, where
knitting jersey cloth.

SALES OFFICES: Charlotte, North Carolina
Greenville, South Carolina
Atlanta, Georgia

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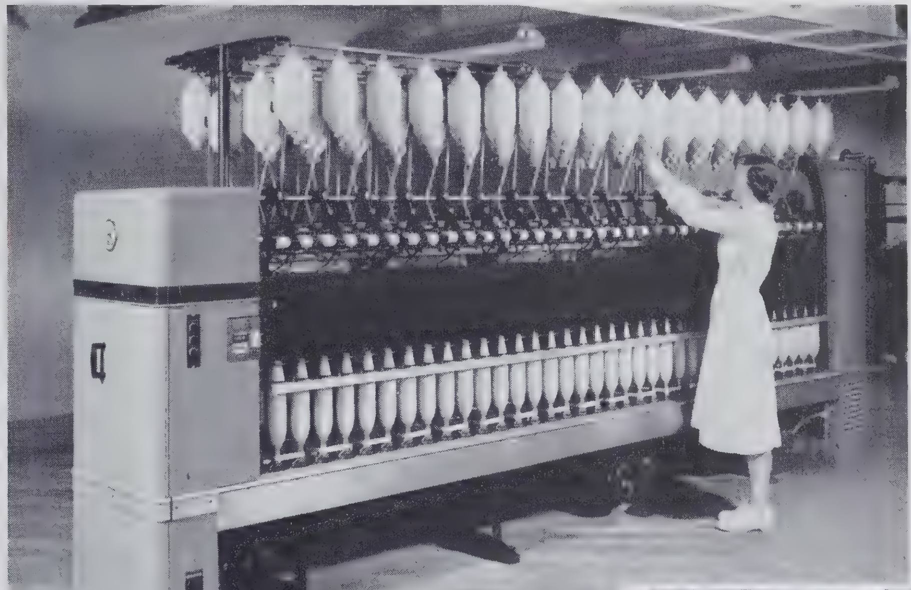
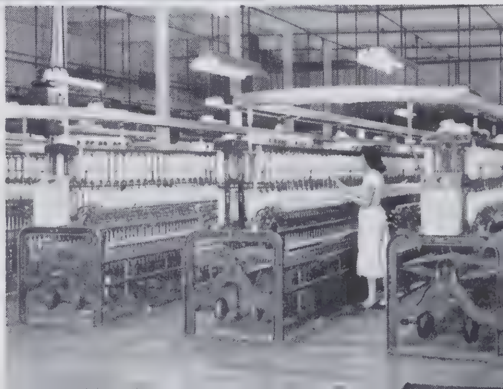
DRAWING: In the drawing process, the fibers arrive at the frame disarrayed and crisscrossed. Here they are rearranged so that they lie in a high degree of parallelization.

COMBING: The purpose of combing is to remove all fibers under a predetermined length, thus increasing the luster, uniformity, and general appearance of the yarn. Today, 75% of the combed cotton yarn produced in the United States is processed on Saco-Lowell Combers.

The GWALTNEY SPINNING FRAME is shown here installed and in operation at the Bates Manufacturing Co. The insert photograph shows the spinning frames replaced by this installation. The Gwaltney frame is the culmination of seven years of intensive research and, except for the development of long draft spinning, is the most significant change in the art of cotton spinning in over 100 years.





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PLANTS: Biddeford and Saco, Maine
Sanford, North Carolina
Pawtucket, Rhode Island

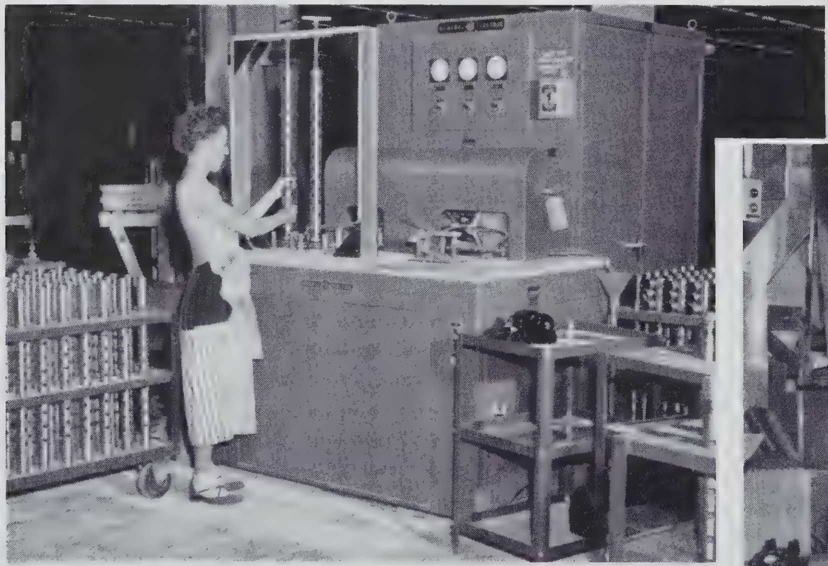
Interior view of the David F. Edwards plant showing machine tools and equipment for the machine gun job just after installation.

Serving the National Defense

The first delivery of completed .50 calibre machine guns under the Company's Army contract of August 29, 1951 was made on schedule in May, 1952 — a notable achievement. A new plant had to be set up, more than 1,000 machine tools installed, many difficult production problems solved, and virtually an independent administrative and manufacturing organization created before deliveries under this contract were possible. The Company has since negotiated a further extension of the contract, tooling for which is now under way and is expected to be completed by June of 1953. Our backlog of Government orders, unless reduced by cancellations, will enable the Edwards Plant to operate through the coming year at the presently scheduled rate of production.

The allowable profit margin on these ordnance contracts is extremely modest at best, and the contracts themselves are subject to cancellation, though with the usual protection to the Company under established termination provisions. Nevertheless, this business constitutes a valuable hedge against both a further decline in textile orders and an intensification of the national defense effort, with its attendant material shortages and restrictions on Company activities in its regular business. Insurance against these two contingencies, however, has not lessened our ability to turn out textile machinery in volume should such textile business stage a marked revival in the months to come.

Two of the many exacting inspections of the M3 .50 calibre machine gun.



SACO-LOWELL SHOPS and Subsidiary

Summary of Consolidated Income

	Fiscal Years Ended November 30, 1952	December 2, 1951
Operating Profit Before Depreciation And Amortization (Note 1)	$ 1,399,513	$ 7,558,014
Provision For Depreciation And Amortization (Note 2)	910,060	621,953
Operating Profit	$ 489,453	$ 6,936,061
Add:		
Interest earned	$ 88,744	$ 85,269
Miscellaneous income credits — Net	10,103	13,941
Total	$ 98,847	$ 99,210
Total	$ 588,300	$ 7,035,271
Deduct:		
Interest expense	$ 34,291	$ 6,676
Provision for social security and state taxes	446,035	608,428
Total	$ 480,326	$ 615,104
Income Before Provision For Federal Tax On Income	$ 107,974	$ 6,420,167
Provision For Federal Tax On Income (no excess profits tax incurred)	50,000	3,200,000
Net Income For The Year	$ 57,974	$ 3,220,167

Summary of Consolidated Earned Surplus

	Fiscal Years Ended November 30, 1952	December 2, 1951
Earned Surplus At Beginning Of Year	$13,031,899	$11,311,732
Add — Net income for the year	57,974	3,220,167
Total	$13,089,873	$14,531,899
Deduct:		
Cash dividends (1952, $1 a share; 1951, $2 a share)	$ 600,000	$ 1,200,000
Amount appropriated for addition to reserve for excess of replacement cost over original cost of plant property		300,000
Total	$ 600,000	$ 1,500,000
Earned Surplus At End Of Year	$12,489,873	$13,031,899

The notes on the accompanying balance sheet are an integral part of these summaries.

Consolidated Balance Sheet

AS OF NOVEMBER 30, 1952 AND DECEMBER 2, 1951

ASSETS

	November 30, 1952	December 2, 1951
Current Assets:		
Cash	$ 1,946,326	$ 4,534,711
United States Government securities (at cost)	3,939,837	3,767,625
Receivables:		
Textile (less reserves)	1,835,602	3,928,902
Other (principally United States Government)	1,754,619	230,166
Reimbursable costs chargeable to United States Government for facilities, special tooling, etc.	2,047,001	121,719
Inventories (not in excess of the lower of cost or market value)	9,415,130	9,618,697
Total current assets	$20,938,515	$22,201,820
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 202,001	$ 208,877
Sundry receivables and advances	65,055	104,297
Miscellaneous securities (less reserve)	12,501	12,501
Total miscellaneous assets	$ 279,557	$ 325,675
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values) (Note 2)	$ 9,695,557	$10,255,569
Prepaid Expenses (principally insurance)	$ 82,617	$ 65,330
Total Assets	$30,996,246	$32,848,394

NOTES

1. Sales were made during the year under a prime contract with the United States Government and certain subcontracts which provide for price redetermination. The earnings of the Company reflect only the stated contract prices. The Company has entered into negotiations for the purpose of obtaining upward revisions of these prices. The ultimate effect of these negotiations upon the earnings of the Company are not presently determinable.

2. The Company has been granted a Certificate of Necessity covering the Edwards Plant in Saco, Maine, which permits the amortization of 40% of the cost of the building over a five-year period for tax purposes. Operations have been charged with the amortization applicable to the current year.

3. In addition to the fixed annual amounts payable on note issued to an insurance company, the loan agreement provides for annual provisional payments beginning March, 1955, based upon net income of the preceding year. Under the loan agreement, the Company must maintain its current assets in excess of current liabilities in an amount of at least $7,000,000.

SACO-LOWELL SHOPS
and Subsidiary

LIABILITIES, RESERVES AND CAPITAL

	November 30, 1952	December 2, 1951
Current Liabilities:		
Accounts payable	$ 1,895,627	$ 1,360,882
Dividend payable	150,000	450,000
Customers' advance payments on sales contracts	325,553	595,827
Accrued liabilities:		
Federal income taxes	417,557	4,093,632
Social security, state, and local taxes	179,095	275,086
Payrolls and vacation pay	925,110	663,285
Agents' commissions	219,100	284,828
Other accruals	657,693	356,317
Total current liabilities	$ 4,769,735	$ 8,079,857
Long-Term Debt — 15-year 3½% note payable; $133,000 due in 1955 and annually thereafter, with provisional payments (Note 3)	$ 2,000,000	
Reserves:		
Amounts appropriated for excess of replacement cost over original cost of plant property	$ 1,750,000	$ 1,750,000
For contingencies	1,000,000	1,000,000
Total reserves	$ 2,750,000	$ 2,750,000
Capital Invested In Business:		
Common stock (authorized, 1,200,000 shares of $2.50 par value each; 35,000 shares reserved in 1952 for stock options (none granted); outstanding, 600,000 shares)	$ 1,500,000	$ 1,500,000
Capital surplus:		
Paid in by stockholders	5,736,638	5,736,638
Earnings capitalized in connection with stock dividend in 1948	1,750,000	1,750,000
Earned surplus	12,489,873	13,031,899
Total capital invested in business	$21,476,511	$22,018,537
Total Liabilities, Reserves and Capital	$30,996,246	$32,848,394

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary as of November 30, 1952 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; it was not practicable to confirm receivables from the United States Government but we have satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 30, 1952 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Boston, January 22, 1953.

Comparative Statistics

	1952	1951	1950	1949
OPERATIONS				
Income Before Federal Taxes On Income	$ 107,974	$6,420,167	$5,008,523	$8,496,351
Federal Taxes On Income	50,000	3,200,000	2,100,000	3,300,000
Net Income	57,974	3,220,167	2,908,523	5,196,351
* Per share of common stock	.10	5.36	4.84	8.66
Cash Dividends On Common Stock	600,000	1,200,000	1,350,000	1,050,000
* Per share of common stock	1.00	2.00	2.25	1.75
Earnings Retained For Use In Business	542,026	2,020,167	1,558,523	4,146,351
FINANCIAL CONDITION				
Total Assets	$30,996,246	$32,848,394	$30,367,274	$29,125,180
Current Assets	20,938,515	22,201,820	22,792,534	21,976,389
Total Liabilities	6,769,735	8,079,857	7,618,904	7,935,333
Current Liabilities	4,769,735	8,079,857	7,618,904	7,935,333
Net Worth (based upon book values)	24,226,511	24,768,537	22,748,370	21,189,847
Working Capital	16,168,780	14,121,963	15,173,630	14,041,056
Wages And Salaries	$15,413,010	$17,193,328	$14,382,992	$15,400,796
Number Of Shareholders At End Of Year	4,812	4,338	3,234	2,919

* Based upon 600,000 shares of common stock outstanding at November 30, 1952.

† Represents net refund of $1,336,265 of Federal taxes resulting from carry back of 1945 loss to prior tax years, less $8,000 provision for subsidiary company.

‡ Before deducting $600,000 provision for contingencies charged against income in 1942

SACO-LOWELL SHOPS
and Subsidiary

1948	1947	1946	1945	1944	1943	1942
$8,000,559	$6,335,664	$1,227,485	$1,310,162	$4,180,799	$4,229,927	‡$2,938,054
3,300,000	2,500,000	450,000	†1,328,265	#3,350,000	#3,525,000	1,430,000
4,700,559	3,835,664	777,485	18,103	830,799	704,927	‡1,508,054
7.83	6.39	1.29	.03	1.38	1.17	2.51
1,000,000	1,000,000	437,500	§374,354	§541,534	§497,509	§623,809
1.66	1.66	.72	.62	.90	.82	1.03
3,700,559	2,835,664	339,985	356,260	272,572	172,358	843,542
$31,129,928	$22,811,442	$16,698,669	$12,739,341	$15,924,013	$15,512,206	$12,302,008
23,434,724	16,782,756	11,635,259	8,788,328	11,768,323	11,725,850	8,740,576
14,086,433	9,468,506	6,191,397	2,572,055	5,425,047	5,285,812	2,273,231
12,736,433	9,468,506	6,191,397	2,572,055	5,425,047	5,285,812	2,273,231
17,043,495	13,342,936	10,507,272	10,167,286	10,498,966	10,226,394	10,028,777
10,698,291	7,314,250	5,443,862	6,216,273	6,343,276	6,440,038	6,467,345
$19,119,306	$13,847,451	$10,151,296	$7,755,466	$7,662,252	$7,491,309	$6,815,108
2,784	2,647	2,692	2,811	2,522	2,202	1,836

§ Dividends were also paid on preferred stock (since retired) as follows — 1942, $40,703; 1943, $35,060; 1944, $16,693; 1945, $9.

# Includes provision for refund to U. S. Government resulting from renegotiation of war contracts.

Saco-Lowell Shops

DIRECTORS

David F. Edwards
Chairman of the Board

Edward S. French
Chairman of the Board,
Boston & Maine Railroad

Frank J. Hale
Retired, Formerly General Agent

Roger D. Hale
Director, Scott & Williams, Inc.
and Penn Metal Co., Inc.

Ralph Hornblower
Partner, Hornblower & Weeks

David H. Howie
Vice President, Fiduciary Trust Co.

Arthur W. Kimbell
President, United-Carr Fastener Corp.

W. Frank Lowell
Vice President

Charles F. Mills
Vice President, The First National
Bank of Boston

John T. Noonan
Partner, Herrick, Smith, Donald,
Farley & Ketchum

William H. Raye, Jr.
Vice President, The First National
Bank of Boston

Thorvald S. Ross
President, Rivett Lathe & Grinder,
Inc.

Malcolm D. Shaffner
President and Treasurer

Philip H. Theopold
Partner, Minot, Deblois & Maddison

OFFICERS

David F. Edwards	*Chairman of the Board*
Malcolm D. Shaffner	*President and Treasurer*
W. Frank Lowell	*Vice President*
J. Arnold Kiely	*Vice President and Clerk*
R. M. Jones	*Vice President*
E. J. McVey	*Vice President*
H. K. Smyth	*Vice President*
J. L. Truslow	*Vice President*
F. Gorham Brigham, Jr.	*Asst. Treasurer and Secretary*
Douglas H. Sears	*Comptroller*
Charles F. Hovey	*Asst. Secretary*

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum
Boston, Mass.

ACCOUNTANTS

Haskins & Sells *Boston, Mass.*

TRANSFER AGENT

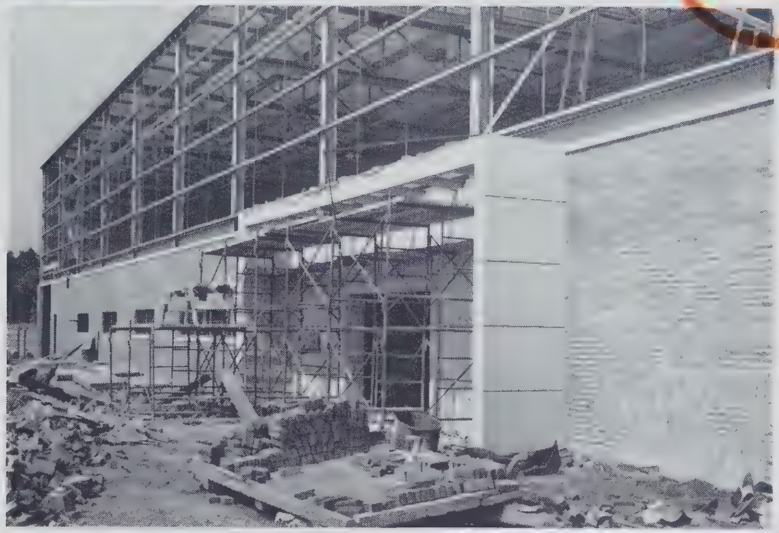
Boston Safe Deposit & Trust Company
Boston, Mass.

REGISTRAR

The First National Bank of Boston
Boston, Mass.

DAVID F. EDWARDS

On November 13, 1952, the David F. Edwards Plant at Saco, Maine was formally dedicated. Mr. Edwards and Malcolm D. Shaffner, President, are shown here during the plaque presentation ceremonies.



Upon completion of assembly, the guns are loaded on to a conveyor for shipment to the firing range for final testing.

The new Saco-Lowell plant is located in Saco, Maine, on a 175 acre tract of land served by the Boston & Maine Railroad.

The building is 600 feet long by 475 feet wide, with a gross area of approximately 280,000 square feet. The new flat-roofed, single-story plant provides the freedom necessary for efficient use of modern metal working machinery and materials handling equipment. It is entirely without interior partitions except for the factory office enclosure and four masonry enclosed islands, housing tiled employee locker rooms, lavatories, etc. All services, including wiring and lighting are planned for optimum flexibility.

For the present emergency this Saco-Lowell plant is being devoted to the production of M3 .50 calibre machine guns for the armed forces.

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SACO-LOWELL SHOPS

1953
Annual Report

SACO-LOWELL SHOPS

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SACO-LOWELL SHOPS

Sanford Plant

In August, 1948, Saco-Lowell Shops acquired the Sanford Plant, which at that time was utilizing an area of 84,000 square feet and giving employment to about 175 operatives. At the time of purchase, production consisted mostly of airplane parts supplemented by a small volume of civilian goods.

The first textile machine to be made in Sanford was the comber, manufacture of which was commenced late in 1948. In the next year the production of lap winders, continuous strippers, and sliver testers was allocated to Sanford, and the number of employees increased to 270. The production of these four machines was so satisfactory that in 1950 the manufacture of drawing frames was transferred to this plant and an addition of 16,600 square feet was built to take care of the increased volume of business. Production at Sanford continued to expand, so that in 1951 it was necessary to increase the floor area by an additional 31,600 square feet; in 1952, a further extension was built.

At the present time Sanford is manufacturing all of our combers, drawing frames, lap winders, sliver testers, and continuous card strippers, as well as a large number of replacement parts used on these machines. In 1953 a new repair parts depot of 14,700 square feet was added, bringing the total number of square feet in use at Sanford to about 150,000, an increase of 80% over the floor space area of the original plant. In addition to the manufacture of textile machinery, Sanford is also engaged in precision production for the armed forces and has a sizeable volume of civilian sub-contract work. About 525 men and women are employed in the plant at the present time.

By all measures of performance the acquisition of this plant in 1948 has been completely justified; it has met every requirement established both for the quantity and the quality of its production.

The YEAR in REVIEW

	1953	1952
Net Income	$1,374,312	$57,974
Net Income Per Share .	$2.29	$0.10
Dividends Per Share . .	$1.00	$1.00
Net Worth	$25,000,823	$24,226,511
Working Capital. . . .	$17,675,292	$16,168,780
Number of Stockholders	4,740	4,812

FRONT COVER

The cover photograph shows the main entrance of the David F. Edwards Plant at Saco, Maine.

Also shown is a rare engraving, giving a "BIRD'S-EYE VIEW OF THE CITIES OF BIDDEFORD AND SACO" in 1875. The Company's operations in Maine originated in buildings constructed in this area.

SACO-LOWELL SHOPS
BOSTON, MASSACHUSETTS

MALCOLM D. SHAFFNER
PRESIDENT

TO THE STOCKHOLDERS

Over the past year the textile industry, and consequently our textile machinery business, continued at a depressed level. Despite this low volume, emphasis on operating economies and the better volume of defense business permitted a profit after taxes of $1,374,312, or $2.29 per share, for the year.

Sales of textile machinery showed practically no change from the 1952 volume, but both the Biddeford and the Sanford Divisions were able to report a modest profit. It seems evident that the protracted period of subnormal plant activity in our textile business has tempered and strengthened the operating organization. In a company such as ours, where younger men hold many responsible managerial positions, the value of this experience cannot be measured precisely in dollars and cents, but we know it contributed greatly to the accomplishments of the last year and believe it augurs well for the future.

These encouraging aspects of the year's operations do not justify an attitude of complacency. The blunt fact is that in 1953 pessimism and uncertainty continued to characterize the textile industry. In these circumstances, mill owners were reluctant to commit themselves to large capital expenditures. In consequence, orders on our books at the end of the year were smaller than at the close of the preceding year and are not sufficiently large to permit us to maintain an orderly plant operating schedule.

The day to day Management-Union relations at the Company's plants in Biddeford and Saco during the past year have been conducted in a generally satisfactory manner. It is, however, just as important to the employees and the community where they live as it is to the well being of the Company that there be a realization and recognition on the part of the Union that, to survive, the Company's wages must be in line with those paid by our principal competitors. It is the feeling of Management that at the present time they are not; and that arbitration proceedings held during the year failed to give adequate relief. The employees of those plants must bear in mind that, in the final analysis, their welfare depends upon the profitable operation of our Maine facilities.

In 1953, our defense work passed out of the get-ready stage and into volume production. Early in the year, losses reported in this branch of the business had been replaced by small gains. For the year as a whole, defense shipments accounted for approximately one-third of our total sales volume. However, considerably less than a pro-rata share of the year's profits came from these sales. Under the provisions of our ordnance contract for machine guns a price redetermination has been agreed upon with the Government, and the effect of the revised higher prices is reflected in the financial statements. Although defense production does not yield us a satisfactory profit, it has been, and continues to be, of vital assistance in absorbing overhead and in preserving the essential core of our manufacturing organization and labor force.

Our principal ordnance contract — for production of the .50 calibre machine gun — should be completed in the second quarter of 1954. Faced with this fact, and with the continued dearth of textile machinery business, the Company has aggressively sought additional defense contracts. A new contract is currently being negotiated for the manufacture of .30 calibre machine guns. This work would employ only about two-thirds of the personnel currently engaged at the Edwards Plant. With the government defense expenditures cut back and intense competition now prevailing in the ordnance field, we are being forced to figure very closely in bidding for this additional business. Even though the proposed contract offers at best a limited profit, it is imperative at this time that every effort be made to prevent the disintegration of an important segment of our manufacturing organization.

Few of the difficulties faced by the Company in 1952 diminished in 1953, and some problems were magnified. Our foreign business declined still further as a result of international trade restrictions, dollar shortages, and competition from foreign manufacturers. Furthermore, our American textile machinery industry now faces further competition in the domestic market from English and European manufacturers of textile machinery.

No thinking person today can, with sincerity, deny the cogency of some of the broad arguments advanced by the proponents of "trade, not aid." We must recognize, however, that many of the more vociferous advocates of free trade stand to gain directly from such a policy. The mass production industries do not fear foreign competition, because the nature of their products and manufacturing processes make it possible for them to compete in the world market despite high American wages. It is not a question of "efficient" or "inefficient" industries. No amount of "efficiency" will enable an American concern such as ours, producing machinery engineered to customer specifications, and in which labor composes a high percentage of the total cost, to compete with a foreign producer paying wages a third of the American rate or less. In the interest of national security, the question may well be raised whether we, as a nation, can afford to cripple a major segment of our producers' goods industries, relying for our supply of vital tools and equipment upon foreign manufacturers whose output would certainly be cut off by a world crisis. The failure to afford adequate tariff protection to the textile machinery industry may have precisely the crippling effect feared.

Faced with multiple challenges to its business as traditionally constituted, Management has continued to study with great care the possibilities of product diversification and plant relocation appropriate to the changing business environment. Such broad and long-range considerations, of course, cannot be allowed to obscure immediate necessities, but they are being given continuous study. The financial report presented herewith again shows a strong working capital position anticipating extensive and basic changes in the Company's activities.

With regret, we announce the retirement from our Board of Directors of Charles F. Mills, Vice President of The First National Bank of Boston, and Arthur W. Kimbell, President of the United-Carr Fastener Corporation. Mr. Mills, who had been one of our directors since 1927 and participated intimately and constructively in major Company developments, retired after a distinguished career in New England business to accept an appointment by President Eisenhower to serve with the Government. Mr. Kimbell, a director since 1951, has found it necessary, because of greatly increased responsibilities elsewhere, to relinquish his able participation in the affairs of the Company.

I should like both to praise and to thank all of those in our organization, whose untiring and effective efforts over the past year have preserved the financial strength of the Company, held manufacturing costs in line, and kept our products well and favorably known in the market.

A Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, as well as more detailed information concerning the Company and last year's business, are presented in the following pages of this report.

January 22, 1954.

Malcolm D Shaffer

Report on Operations

SALES AND MARKETS

Total sales of all products in 1953 increased 30 per cent over the total for 1952. This rise in the volume of business came about as a result of increased deliveries under our defense contracts. At the Edwards Plant shipments of .50 calibre machine guns and components tripled over the previous year, growing from 9 per cent of total sales in 1952 to 29 per cent in 1953. Defense and other non-textile shipments at Sanford increased 160 per cent. Textile machinery sales from all plants showed practically no change from the previous year.

Apathy continued to characterize our textile markets. While many mills reported a fair degree of activity, and the consumption of cotton, rayon, and wool actually was greater than in the preceding year, mill profit margins continued to be unsatisfactory. Under these conditions only the more progressive and better-financed mills continued to take advantage of latest machinery improvements; many mills were forced to reduce operations and some even to close down.

Keen competition for the limited textile machinery business available was accentuated by the activity of foreign machinery producers in both American and world markets. Our foreign business was only a fraction of the postwar peak in 1948. The important Brazilian market remained virtually sealed off by import regulations.

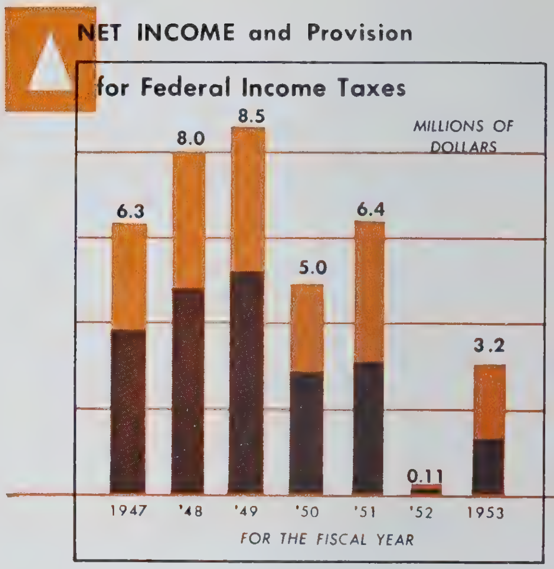
Recognizing these adverse market conditions we made strenuous efforts to adapt our machinery to present-day market needs of the textile mills. A new sales office was opened in Greensboro, North Carolina. In order to facilitate customer service, the Repair Parts Depot at Charlotte was moved to the more effective location at our Sanford, North Carolina, Plant, and the Charlotte sales office was moved to the outskirts of the city.

ORDNANCE CONTRACTS

As mentioned in the President's letter, work on the .50 calibre machine gun in the Edwards Plant in Saco, Maine, reached a production basis in 1953. The Company's success in adapting its operating and management experience to the demanding requirements of this product makes feasible the further recourse to this type of work until such time as the textile machinery business and/or entirely new and different activities again provide normal employment of our plant facilities and personnel.

In anticipation of the completion of the present .50 calibre gun contract in the second quarter of 1954, the Company began, in the spring of 1953, to look for additional defense business. It is expected that these efforts will culminate soon in a contract to manufacture .30 calibre machine guns. Because of the intense competition for defense work which now prevails, the proposed contract would be on a fixed-price basis that promises little profit. This business, if obtained, should utilize somewhat more than two-thirds of the present Edwards Plant facilities through the first half of 1955. The practical alternative of closing down a substantial portion of this plant and discharging large numbers of our skilled employees would be vastly more costly.

There are, moreover, certain strategic considerations which have encouraged the Company to expend every effort to obtain the .30 calibre gun contract. Experience, skills, and production facilities acquired in manufacturing the .50 calibre weapon are potentially more valuable when employed in making a similar gun than they would be if devoted to a totally different ordnance product.


NET INCOME and Provision for Federal Income Taxes

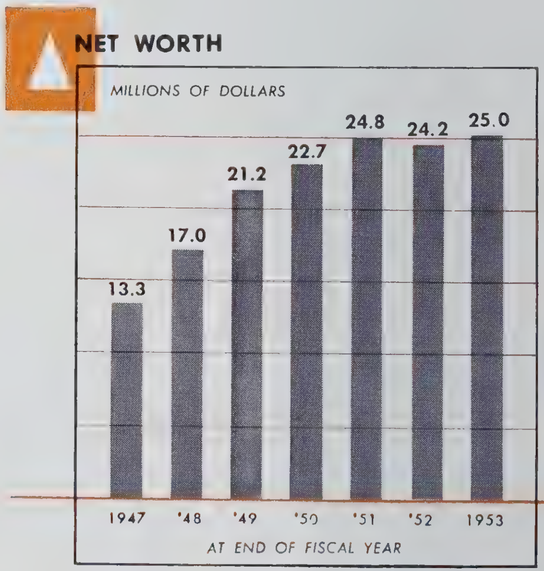
MANUFACTURING OPERATIONS

Our textile machinery business reflected a conscious and determined effort to adjust manufacturing operations to the below-capacity level of activity which has prevailed for the past two years. Such an adjustment necessarily is a long-term undertaking; the progress evidenced in 1953 actually was the result of planning which started early in 1952.

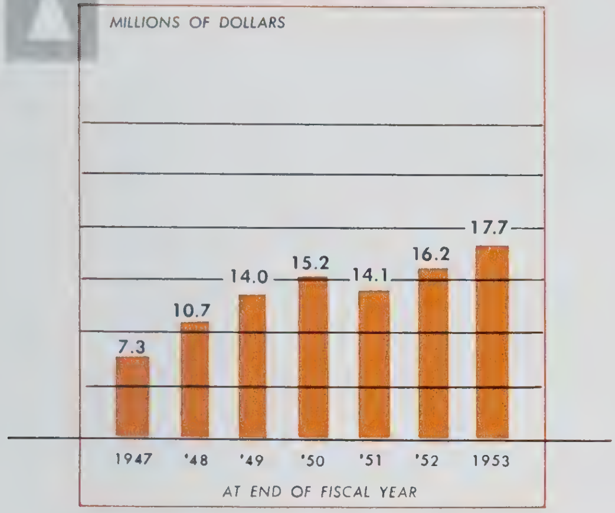
The Sanford Division, about one-sixth the size of the Biddeford Plant, continues to demonstrate the effectiveness of well-located manufacturing facilities by accounting for about 35 per cent of last year's earnings. It has succeeded in obtaining and profitably manufacturing several types of defense and non-textile products. As a result, this plant was able to offset the decline in sales of combers, draw frames and lap winders and operate at near capacity.

The question of further plant relocation continues to receive careful consideration. Tangible progress has been made with our long-range plant replacement program in studying alternative locations outside New England. Plans have been developed in respect to types of products and estimated volume which might be handled in new locations, together with the equipment and building facilities required.

The continuation of restrictions upon the importation of American machinery into Latin American markets has resulted in further study being given to the possibility of locating a branch manufacturing operation in Brazil. Exploratory studies were continued in 1953 to determine whether a cautious entry could be made into manufacturing operations in that country. Fur-


NET WORTH

WORKING CAPITAL

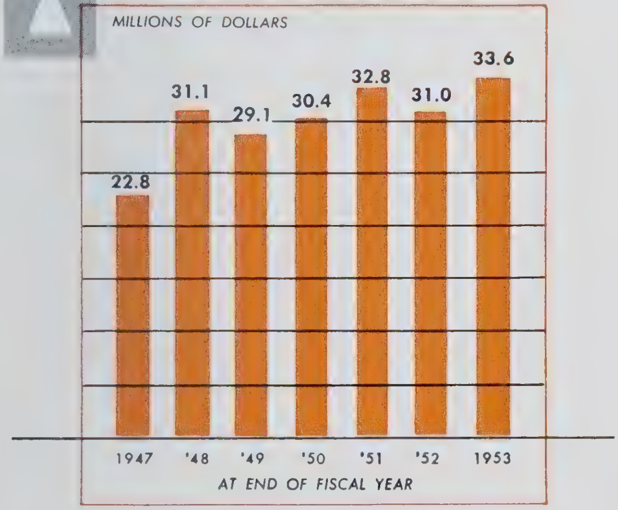


ther action awaits developments in the exchange situation.

INDUSTRIAL RELATIONS

In 1953 the Company's request for a decrease in hourly wage rates, which was made under the wage reopening provision in the 1950 agreement between the Company and the Textile Workers' Union of America (CIO), went before an arbitrator. His ruling directed a 5 cent per hour reduction, effective March 15, 1953. This award fell far short of the Company's need for bringing its wage rates into line with those of its principal competitors and was almost entirely offset by an automatic 4 cent per hour "improvement factor" increase, effective September 15, 1953, provided for in the 1950 contract.

TOTAL ASSETS



Over the year, decreases and increases under the cost-of-living provision in the collective bargaining agreement balanced out so as to occasion no net change in wage rates as a result of this contract provision.

For the second consecutive year, the Biddeford and Saco Plants were awarded the National Safety Council's Award of Honor for outstanding achievement in accident prevention. Our accident rate in the past year was less than one-fifth of the national average for textile machinery manufacturers, and continues to show a downward trend. A well-rounded safety program with its resultant continuous decrease in on-the-job accidents, has not only afforded monetary savings for the Company and its employees, but has helped to eliminate costly delays and overhead expense.

Total employment in all divisions of the Company declined from about 4,500 in November of 1952 to 4,200 in November of 1953. Of the 1953 total, 1,200 were employed in defense work at the Edwards Plant.

NEW PRODUCTS

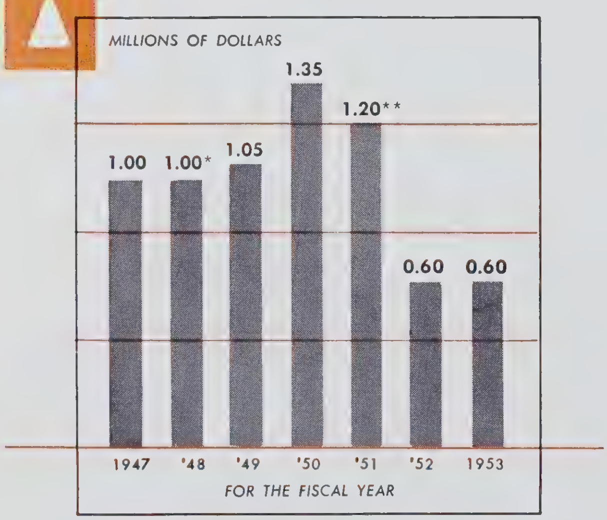
Product research and development constitute a major weapon with which to combat depressed market conditions. In such circumstances it is essential to the continued success of our Company that we be prepared to supply the textile industry with new products offering substantial improvements in operating economy and quality performance. To this end we were in the past year more active than ever.

The Gwaltney Spinning Frame, introduced in 1952, has steadily continued to attract new business. To date, we have installed more than 800 of these frames — about 200,000 spindles. Reports from the field and repeat orders from important customers confirm the Company's conviction that this spinning frame represents one of the outstanding textile machinery developments of recent years.

The Company's new worsted machinery line, though still a small part of our total business, has been extremely well received. Versatile, low cost, high-quality performance has won this machinery a conspicuous place in a notoriously competitive market.

In addition to developing new machines, the Company is continuing its policy of making improvements to allow existing machinery to be modernized. This provides added income to the Company, as well as improving the competitive position of our customers.

TOTAL DIVIDENDS



*PLUS 20% COMMON STOCK DIVIDEND — $2,000,000
**2 FOR 1 STOCK SPLIT IN 1951

The American Textile Machinery Exhibition in Atlantic City next April will furnish an important opportunity for our Company to demonstrate to thousands of mill men from all over the world the development and improvements which have been incorporated in our line since the last exhibition four years ago.

FINANCIAL CONDITION

Throughout 1953, the Company maintained a strong and liquid financial position, reflecting a conscious effort to maintain a degree of liquidity which will facilitate product diversification and plant relocation. These same considerations, plus the uncertain prospects of business in the forthcoming year, underlay the decision to pay dividends at our regular rate of $1.00 per share.

On November 29, 1953, the end of our fiscal year, current assets exceeded current liabilities by $17,675,292, an increase of $1,506,512, since the end of the previous fiscal year. Cash and government securities increased $144,926 over the year. Inventories at the close of the fiscal year 1953 were $606,308 greater than in 1952. Accounts receivable on the books at the close of 1953 were $3,358,650 higher than a year ago. This increase was primarily the result of price redetermination adjustments with the government and disproportionately large shipments being concentrated in the last two months of 1953, as compared with the same period in the previous year.

The better earnings of 1953 occasioned an increase of $1,782,431 in the accrued liability for Federal Income Taxes.

RESTRICTED STOCK OPTIONS

Under the Company's Restricted Stock Option Plan, established pursuant to vote of the stockholders, there was issued during the year to

Simplified Balance Sheet

AT END OF FISCAL YEAR, NOVEMBER 29, 1953

WHAT WE OWN . . .

	Thousands of Dollars	Percent
Cash and government securities	$ 6,031	18.0%
Owed us by others	7,957	23.7
Goods on hand	10,021	29.8
Property and equipment (less wear and tear)	9,190	27.4
Other assets	386	1.1
	$33,585	100.0%

WHAT WE OWE . . .

	Thousands of Dollars	Percent
Amounts owed which are due for payment in 1954	$ 6,335	18.8%
Long-term debt	2,000	6.0
Amount set aside for reconversion costs	250	.7
Stockholders for their investment in the business	8,986	26.8
Stockholders for income earned in prior years and retained in the business	16,014	47.7
	$33,585	100.0%

sixteen officers and employees options on 14,850 shares of the Company's stock at $14.00 a share. These options are not exercisable prior to June 8, 1955.

OUTLOOK FOR 1954

Sporadic talk is heard about improvement in the prospects of the textile industry in the forthcoming year. A time lag must, however, be expected between any real revival in textiles and the placing of orders for machinery, and a further time lag would occur from the placing of the orders to delivery of the machinery. Furthermore, we face a heavy dip in activity at the Edwards Plant, even though we are successful in obtaining the .30 calibre gun contract. It seems reasonably certain, therefore, that even if conditions in the textile industry should take a turn for the better, continued curtailment of manufacturing schedules and of our working force must be anticipated in the first two quarters of 1954.

While unfavorable conditions and prospects are general throughout the textile machinery industry, mill men recognize that sooner or later they must avail themselves of the operating economies offered by the most recent machinery developments in order to preserve their competitive position.

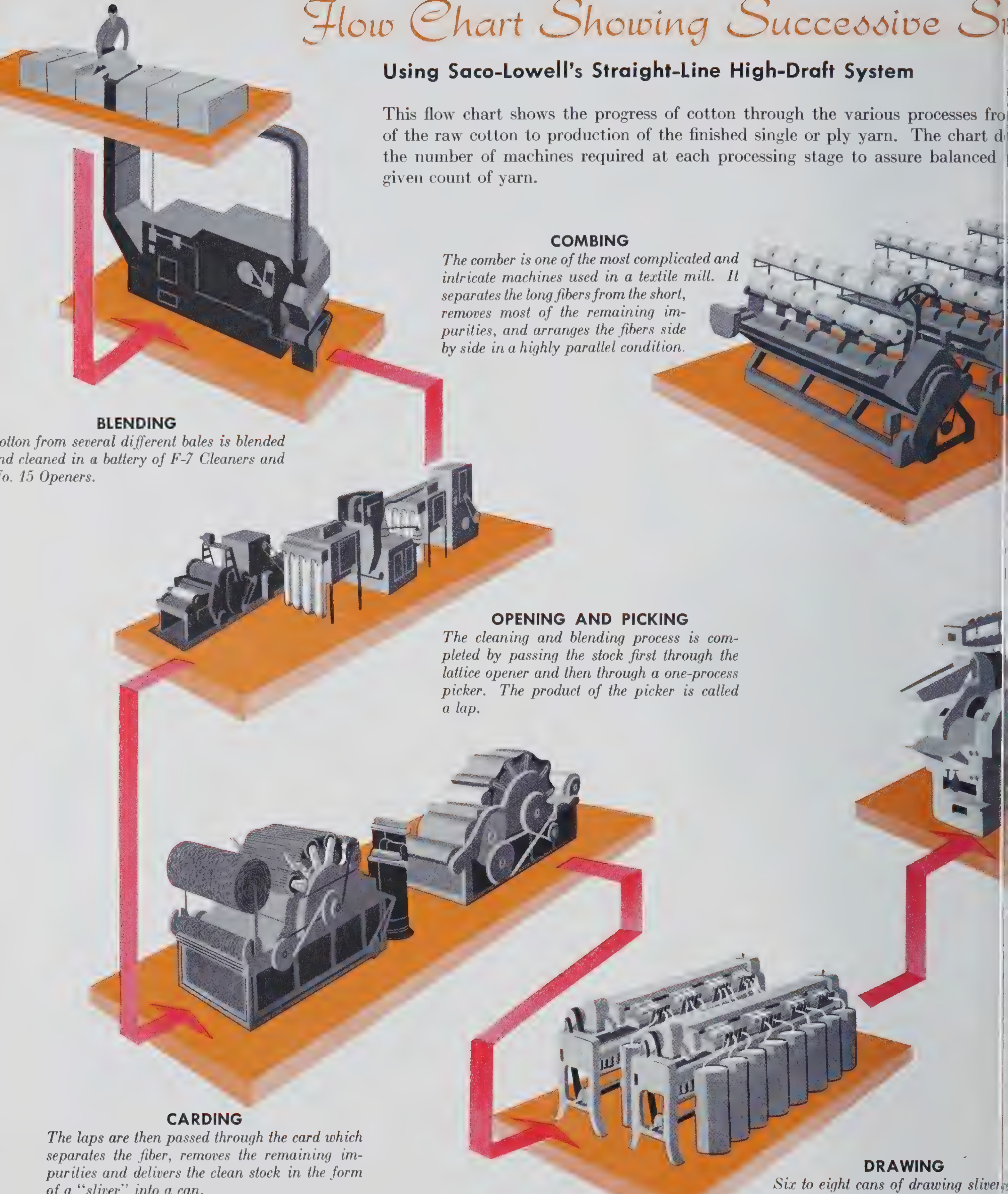
ANNUAL MEETING

A notice of the Annual Meeting of Stockholders and a proxy form have been mailed to you. Unless you plan to attend the Annual Meeting in person, we urge you to SEND IN YOUR PROXY PROMPTLY.

Flow Chart Showing Successive S

Using Saco-Lowell's Straight-Line High-Draft System

This flow chart shows the progress of cotton through the various processes fro
of the raw cotton to production of the finished single or ply yarn. The chart d
the number of machines required at each processing stage to assure balanced
given count of yarn.



COMBING

The comber is one of the most complicated and intricate machines used in a textile mill. It separates the long fibers from the short, removes most of the remaining impurities, and arranges the fibers side by side in a highly parallel condition.

BLENDING

otton from several different bales is blended
nd cleaned in a battery of F-7 Cleaners and
o. 15 Openers.

OPENING AND PICKING

The cleaning and blending process is completed by passing the stock first through the lattice opener and then through a one-process picker. The product of the picker is called a lap.

CARDING

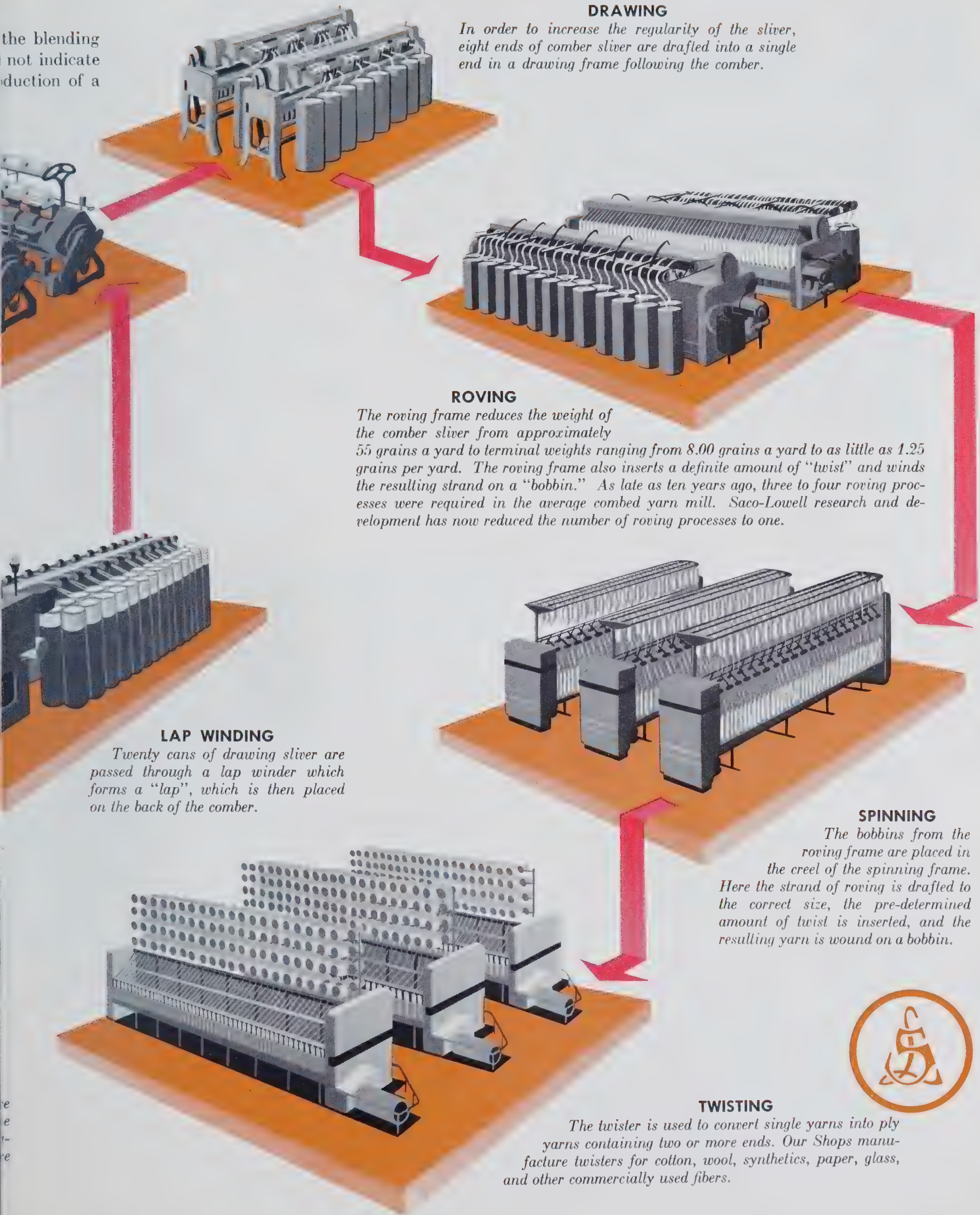
The laps are then passed through the card which separates the fiber, removes the remaining impurities and delivers the clean stock in the form of a "sliver" into a can.

DRAWING

Six to eight cans of drawing sliver
doubled into one and passed through
drawing frame. The purpose of this op
tion is to attain linear regularity and to p
the fibers parallel to each other.

ps in the Manufacture of Combed Yarns

the blending
not indicate
duction of a



DRAWING

In order to increase the regularity of the sliver, eight ends of comber sliver are drafted into a single end in a drawing frame following the comber.

ROVING

The roving frame reduces the weight of the comber sliver from approximately 55 grains a yard to terminal weights ranging from 8.00 grains a yard to as little as 1.25 grains per yard. The roving frame also inserts a definite amount of "twist" and winds the resulting strand on a "bobbin." As late as ten years ago, three to four roving processes were required in the average combed yarn mill. Saco-Lowell research and development has now reduced the number of roving processes to one.

LAP WINDING

Twenty cans of drawing sliver are passed through a lap winder which forms a "lap", which is then placed on the back of the comber.

SPINNING

The bobbins from the roving frame are placed in the creel of the spinning frame. Here the strand of roving is drafted to the correct size, the pre-determined amount of twist is inserted, and the resulting yarn is wound on a bobbin.

TWISTING

The twister is used to convert single yarns into ply yarns containing two or more ends. Our Shops manufacture twisters for cotton, wool, synthetics, paper, glass, and other commercially used fibers.

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Repair Parts Sanford Depot

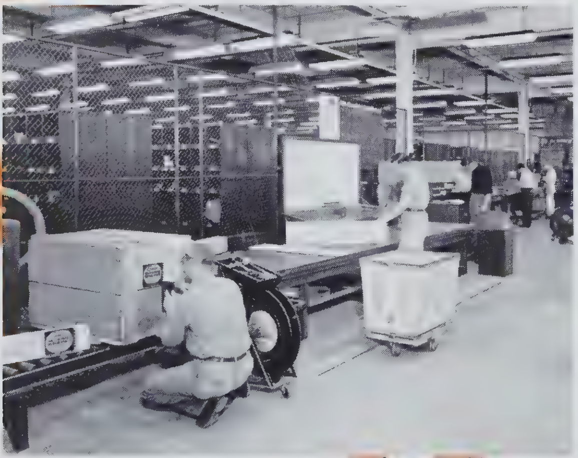
In September of 1953 our Southern Repair Parts Depot was moved from Charlotte, North Carolina, to a new fireproof building erected at our Sanford Plant. The new structure contains over 14,000 square feet of storage space. It is now possible to co-ordinate closely the engineering, manufacturing, and shipping of the 5,000 different items which we carry in stock to meet the needs of our southern customers.

In arranging this new warehouse, efficient storage and materials handling were primary considerations. All stock items are readily accessible. An accurate control system with a perpetual inventory keeps the stock on hand at the predetermined level. Over 75% of the orders received from southern mills are shipped within 24 to 48 hours.

Three railroads and sixteen major trucking lines serving Sanford furnish adequate transportation to any part of the textile South. Shipments vary from two ounces of set screws or washers to a picker side weighing over 900 pounds. The volume of orders received and shipped by the Sanford Repair Parts Depot has already proved that the move to Sanford will be profitable not only for ourselves, but for our customers, who will now benefit from faster and more accurate handling of orders.

Storage bins for small parts in Repair Division

View showing neat storage racks for finished shafting



Each order, large or small, carefully packaged prior to shipment

Vertical pin storage of gears, pulleys, and parts too large for bin storage

SACO-LOWELL SHOPS and Subsidiary

Summary of Consolidated Income

	Fiscal Years Ended November 29, 1953	November 30, 1952
Operating Profit Before Depreciation And Amortization	$ 4,780,822	$ 1,399,513
Provision For Depreciation And Amortization (Note 1)	932,901	910,060
Operating Profit	$ 3,847,921	$ 489,453
Add:		
Net gain on sale of land and buildings	$ 107,798	
Interest earned	96,038	$ 88,744
Miscellaneous income credits — net	6,066	10,103
Total	$ 209,902	$ 98,847
Total	$ 4,057,823	$ 588,300
Deduct:		
Provision for social security and state taxes	$ 513,403	$ 446,035
Interest expense	70,108	34,291
Total	$ 583,511	$ 480,326
Income Before Provision For Federal Tax On Income And Plant Standby And Reconversion Costs	$ 3,474,312	$ 107,974
Deduct:		
Provision for Federal tax on income (no excess profits tax incurred)	$ 1,850,000	$ 50,000
Provision for defense plant standby and reconversion costs	250,000	
Total	$ 2,100,000	$ 50,000
Net Income For The Year	$ 1,374,312	$ 57,974

Summary of Consolidated Earned Surplus

	Fiscal Years Ended November 29, 1953	November 30, 1952
Earned Surplus At Beginning Of Year	$12,489,873	$13,031,899
Add — Net income for the year	1,374,312	57,974
Total	$13,864,185	$13,089,873
Deduct — Cash dividends ($1 a share)	600,000	600,000
Earned Surplus At End Of Year	$13,264,185	$12,489,873

The notes on the accompanying balance sheet are an integral part of these summaries.

Consolidated Balance Sheet

AS OF NOVEMBER 29, 1953 AND NOVEMBER 30, 1952

ASSETS

	November 29, 1953	November 30, 1952
Current Assets:		
Cash	$ 2,327,204	$ 1,946,326
United States Government securities (at cost)	3,703,885	3,939,837
Receivables:		
Textile (less reserves)	4,123,368	1,835,602
Other (principally United States Government)	2,825,503	1,754,619
Reimbursable costs chargeable to United States Government for facilities and special tooling	1,008,253	2,047,001
Inventories (not in excess of the lower of cost or market value)	10,021,438	9,415,130
Total current assets	$24,009,651	$20,938,515
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 181,527	$ 202,001
Textile receivables not currently due	79,205	
Sundry receivables and advances	58,524	65,055
Miscellaneous securities (less reserve)	12,501	12,501
Total miscellaneous assets	$ 331,757	$ 279,557
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values) (Note 1)	$ 9,189,499	$ 9,695,557
Prepaid Expenses (principally insurance)	$ 54,275	$ 82,617
Total Assets	$33,585,182	$30,996,246

NOTES

1. The Company has been granted a Certificate of Necessity covering the Edwards Plant in Saco, Maine, which permits the amortization of 40% of the cost of the building over a five-year period for tax purposes. Operations have been charged with the amortization applicable to the current year.

2. In addition to the fixed annual amounts payable on note issued to an insurance company, the loan agreement provides for annual provisional payments beginning March 1955, based upon net income of the preceding year. Under the loan agreement, the Company must maintain its current assets in excess of current liabilities in an amount of at least $7,000,000.

3. Of the 35,000 shares reserved under the Company's Restricted Stock Option Plan, options to purchase 14,850 shares at $14.00 a share were granted to sixteen officers and employees in June 1953, exercisable under certain conditions during the period from June 8, 1955 to June 7, 1960. The price of $14.00 was slightly in excess of the market value of the stock at the date the options were granted.

SACO-LOWELL SHOPS

and Subsidiary

LIABILITIES, RESERVES AND CAPITAL

	November 29, 1953	November 30, 1952
Current Liabilities:		
Accounts payable	$ 1,375,410	$ 1,895,627
Dividend payable	150,000	150,000
Customers' advance payments on sales contracts	659,585	325,553
Accrued liabilities:		
Federal income taxes	2,199,988	417,557
Social security, state, and local taxes	205,437	179,095
Payrolls and vacation pay	644,812	925,110
Agents' commissions	245,560	219,100
Other accruals	853,567	657,693
Total current liabilities	$ 6,334,359	$ 4,769,735
Long-Term Debt — 15-year 3½% note payable; $133,000 due in 1955 and annually thereafter, with provisional payments (Note 2)	$ 2,000,000	$ 2,000,000
Reserves:		
For defense plant standby and reconversion costs	$ 250,000	
Amounts appropriated for excess of replacement cost over original cost of plant property	1,750,000	$ 1,750,000
For contingencies	1,000,000	1,000,000
Total reserves	$ 3,000,000	$ 2,750,000
Capital Invested In Business:		
Common stock — $2.50 par value (authorized, 1,200,000 shares, of which 35,000 shares are reserved for stock options — see Note 3; outstanding, 600,000 shares)	$ 1,500,000	$ 1,500,000
Capital surplus:		
Paid in by stockholders	5,736,638	5,736,638
Earnings capitalized in connection with stock dividend in 1948	1,750,000	1,750,000
Earned surplus	13,264,185	12,489,873
Total capital invested in business	$22,250,823	$21,476,511
Total Liabilities, Reserves and Capital	$33,585,182	$30,996,246

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary as of November 29, 1953 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; it was not practicable to confirm receivables from the United States Government but we have satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 29, 1953 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Boston, January 19, 1954.

Comparative Statistics

	1953	1952	1951	1950
OPERATIONS				
Income Before Federal Taxes On Income	$ 3,474,312	$ 107,974	$6,420,167	$5,008,523
Federal Taxes On Income	‡ 2,100,000	50,000	3,200,000	2,100,000
Net Income	1,374,312	57,974	3,220,167	2,908,523
* Per share of common stock	2.29	.10	5.36	4.84
Cash Dividends On Common Stock	600,000	600,000	1,200,000	1,350,000
* Per share of common stock	1.00	1.00	2.00	2.25
Earnings Retained For Use In Business	774,312	542,026	2,020,167	1,558,523
FINANCIAL CONDITION				
Total Assets	$33,585,182	$30,996,246	$32,848,394	$30,367,274
Long-Term Debt	2,000,000	2,000,000		
Current Assets	24,009,651	20,938,515	22,201,820	22,792,534
Total Liabilities	8,334,359	6,769,735	8,079,857	7,618,904
Current Liabilities	6,334,359	4,769,735	8,079,857	7,618,904
Net Worth (based upon book values)	25,000,823	24,226,511	24,768,537	22,748,370
Working Capital	17,675,292	16,168,780	14,121,963	15,173.630
Wages And Salaries	$17,395,596	$15,413,010	$17,193,328	$14,382,992
Number Of Shareholders At End Of Year	4,740	4,812	4,338	3,234

*Based upon 600,000 shares of common stock outstanding at November 29, 1953.

† Represents net refund of $1,336,265 of Federal taxes resulting from carry-back of 1945 loss to prior tax years, less $8,000 provision for subsidiary company.

‡ Includes $250,000 provision for defense plant standby and reconversion costs.

SACO-LOWELL SHOPS
and Subsidiary

1949	1948	1947	1946	1945	1944	1943
$8,496,351	$8,000,559	$6,335,664	$1,227,485	$1,310,162	$4,180,799	$4,229,927
3,300,000	3,300,000	2,500,000	450,000	† 1,328,265	#3,350,000	#3,525,000
5,196,351	4,700,559	3,835,664	777,485	18,103	830,799	704,927
8.66	7.83	6.39	1.29	.03	1.38	1.17
1,050,000	1,000,000	1,000,000	437,500	§374,354	§541,534	§497,509
1.75	1.66	1.66	.72	.62	.90	.82
4,146,351	3,700,559	2,835,664	339,985	356,260	272,572	172,358
$29,125,180	$31,129,928	$22,811,442	$16,698,669	$12,739,341	$15,924,013	$15,512,206
	1,350,000		1,500,000			
21,976,389	23,434,724	16,782,756	11,635,259	8,788,328	11,768,323	11,725,850
7,935,333	14,086,433	9,468,506	6,191,397	2,572,055	5,425,047	5,285,812
7,935,333	12,736,433	9,468,506	4,691,397	2,572,055	5,425,047	5,285,812
21,189,847	17,043,495	13,342,936	10,507,272	10,167,286	10,498,966	10,226,394
14,041,056	10,698,291	7,314,250	6,943,862	6,216,273	6,343,276	6,440,038
$15,400,796	$19,119,306	$13,847,451	$10,151,296	$7,755,466	$7,662,252	$7,491,309
2,919	2,784	2,647	2,692	2,811	2,522	2,202

§ Dividends were also paid on preferred stock (since retired) as follows — 1943, $35,060; 1944, $16,693; 1945, $9.

Includes provision for refund to U. S. Government resulting from renegotiation of war contracts.

Saco-Lowell Shops

DIRECTORS

David F. Edwards
Chairman of the Board

Edward S. French
Chairman of the Board, Boston & Maine Railroad

Frank J. Hale
Retired, Formerly General Agent

Roger D. Hale
Director, Scott & Williams, Inc. and Penn Metal Co., Inc.

Ralph Hornblower
Partner, Hornblower & Weeks

David H. Howie
Director, Fiduciary Trust Co.

W. Frank Lowell
Vice President

John T. Noonan
Partner, Herrick, Smith, Donald, Farley & Ketchum

William H. Raye, Jr.
Vice President, The First National Bank of Boston

Thorvald S. Ross
President, Rivett Lathe & Grinder, Inc.

Malcolm D. Shaffner
President and Treasurer

Philip H. Theopold
Partner, Minot, Deblois & Maddison

OFFICERS

David F. Edwards	*Chairman of the Board*
Malcolm D. Shaffner	*President and Treasurer*
W. Frank Lowell	*Vice President*
J. Arnold Kiely	*Vice President and Clerk*
R. M. Jones	*Vice President*
E. J. McVey	*Vice President*
H. K. Smyth	*Vice President*
J. L. Truslow	*Vice President*
F. Gorham Brigham, Jr.	*Asst. Treasurer and Secretary*
Douglas H. Sears	*Comptroller*
Charles F. Hovey	*Asst. Secretary*

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum
Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company
Boston, Mass.

REGISTRAR

The First National Bank of Boston
Boston, Mass.

ACCOUNTANTS

Haskins & Sells
Boston, Mass.

Some views in the Edwards Plant
in SACO, MAINE

Side Plate Assembly

The Side Plate is one of the essential components of the .50 calibre machine gun The illustration shows the receiving section of the Side Plate assembly line where the components are progressively fitted until the unit is ready to pass on to final assembly.

Tool and Cutter Maintenance Department

The successful operation of a production line depends upon the accuracy of the cutting tools used. In this skillfully staffed department, all of the tools and cutters are systematically sharpened, then checked for size and contour, as well as hardness and temper.

Salt Bath Heat Treating Unit

The art of "heat treating" metals is one of the most interesting branches of modern metallurgy. Since the operating units of the .50 calibre machine gun must all be wear-resistant for the life of the gun, each part receives special heat treatment designed to give optimum results under the most extreme conditions of use.

The Edwards Plant in Saco has earned an excellent reputation for its production of the .50 calibre machine guns. Deliveries have always been on schedule; quality of workmanship has met every standard of Ordnance; operation, on the test range and in combat, has met the highest standards.

The manufacture of the .50 calibre machine gun, of which certain processes are illustrated here, has given our staff a background of experience in the manufacture of complex and intricate precision assemblies which will be useful in making textile machinery.

Pre-Firing Inspection

The safety of the plane and its crew depends upon the accuracy and dependability of its offensive weapons. These .50 calibre machine guns must always have the confidence of the crew, in high or low altitudes, rain, snow, or sleet, as well as tropic heat. To assure this complete dependability, every step in manufacture and assembly is followed by scrupulous inspection and thorough checking. Here the completed gun is receiving the final check before being sent to the test firing range.

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UNIVERSITY PRESS OF CAMBRIDGE INC.

SACO-LOWELL SHOPS

60 BATTERYMARCH STREET
BOSTON 10, MASSACHUSETTS

BOSTON & MAINE R.R.

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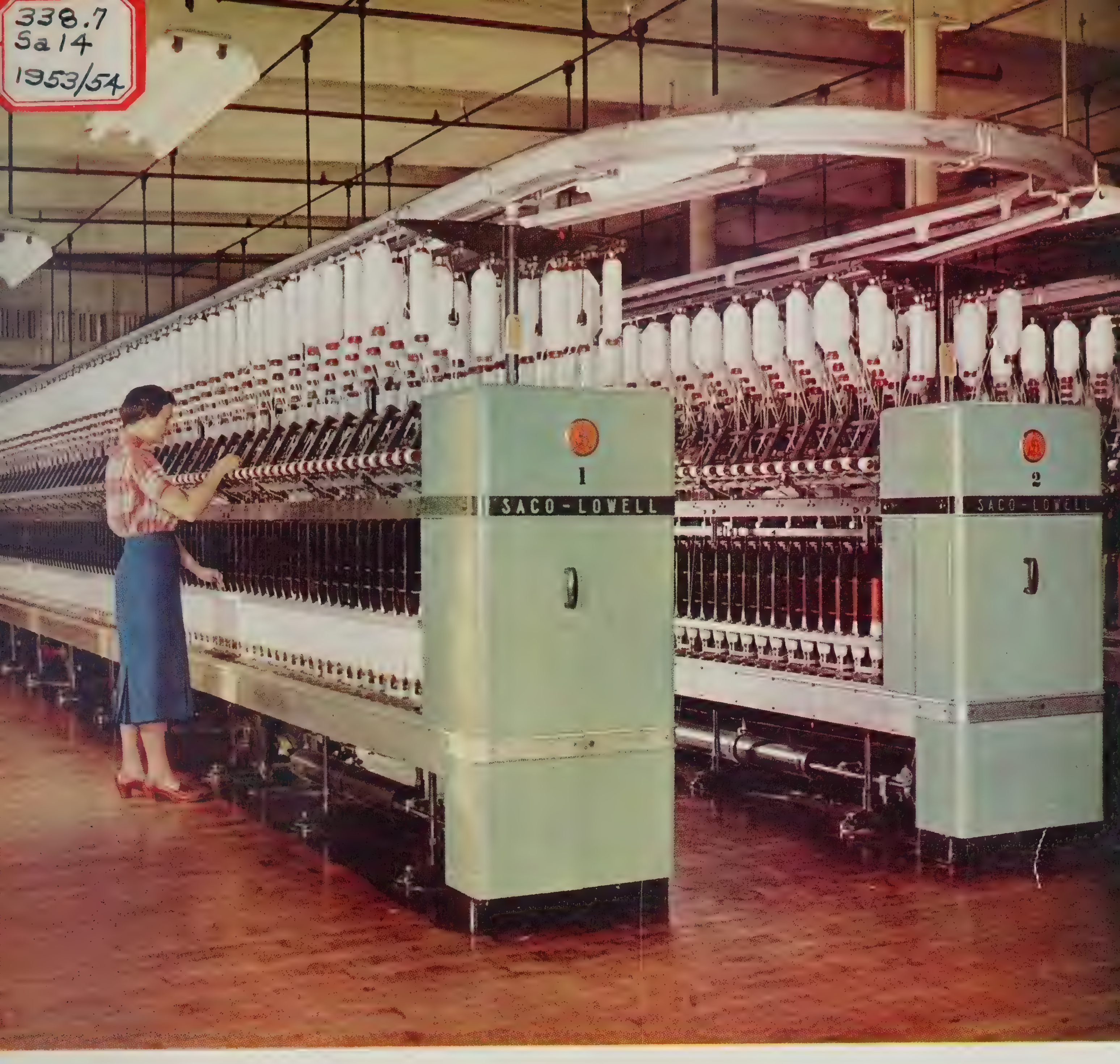
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SACO-LOWELL
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SACO-LOWELL

SACO-LOWELL SHOPS

Annual Report for the fiscal year 1954

COVER

Saco-Lowell Gwaltney spinning frames in the York Division, Bates Manufacturing Company, Saco, Maine. This scene is typical of spinning rooms in more than 60 mills, operating 240,000 spindles of Gwaltney Spinning. These mills produce a wide range of carded and combed yarns varying in count from 4's to 60's.

ANNUAL MEETING

The Annual Meeting of stockholders will be held on February 23, 1955. Notices of the meeting and proxy forms are being mailed. Stockholders unable to be present are urged to send in their proxies promptly.

SACO-LOWELL SHOPS

Annual Report

FOR THE FISCAL YEAR ENDING NOVEMBER 28

1954

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EXECUTIVE OFFICES:	60 BATTERYMARCH STREET, BOSTON, MASSACHUSETTS
PLANTS AT:	BIDDEFORD AND SACO, MAINE PAWTUCKET, RHODE ISLAND, SANFORD, NORTH CAROLINA
SALES OFFICES:	ATLANTA, GEORGIA, CHARLOTTE, NORTH CAROLINA GREENSBORO, NORTH CAROLINA, GREENVILLE, SOUTH CAROLINA

FOREIGN SALES REPRESENTATIVES in principal textile manufacturing centers throughout the world

SACO-LOWELL SHOPS

DIRECTORS

DAVID F. EDWARDS
Chairman of the Board

EDWARD S. FRENCH
Chairman of the Board,
Boston & Maine Railroad

ROGER D. HALE
Director, Scott & Williams, Inc.
and Penn Metal Co., Inc.

RALPH HORNBLOWER
Partner, Hornblower & Weeks

DAVID H. HOWIE
Director, Fiduciary Trust Co.

W. FRANK LOWELL
Vice President

JOHN T. NOONAN
Partner, Herrick, Smith, Donald,
Farley & Ketchum

WILLIAM H. RAYE, JR.
Vice President, The First National
Bank of Boston

THORVALD S. ROSS
President, Rivett Lathe & Grinder,
Inc.

MALCOLM D. SHAFFNER
President and Treasurer

PHILIP H. THEOPOLD
Partner, Minot, Deblois & Maddison

OFFICERS

DAVID F. EDWARDS	*Chairman of the Board*
MALCOLM D. SHAFFNER	*President and Treasurer*
W. FRANK LOWELL	*Vice President*
J. ARNOLD KIELY	*Vice President and Clerk*
R. M. JONES	*Vice President*
E. J. MCVEY	*Vice President*
H. K. SMYTH	*Vice President*
J. L. TRUSLOW	*Vice President*
F. GORHAM BRIGHAM, JR.	*Asst. Treasurer and Secretary*
DOUGLAS H. SEARS	*Comptroller*
ROBERT W. CORSON	*Asst. Comptroller*
CHARLES F. HOVEY	*Asst. Secretary*

GENERAL COUNSEL

HERRICK, SMITH, DONALD, FARLEY AND KETCHUM
Boston, Mass.

TRANSFER AGENT

BOSTON SAFE DEPOSIT & TRUST COMPANY
Boston, Mass.

REGISTRAR

THE FIRST NATIONAL BANK OF BOSTON
Boston, Mass.

ACCOUNTANTS

HASKINS & SELLS *Boston, Mass.*

FINANCIAL SUMMARY

	1954	1953
Net Income	$ 1,331,994	$ 1,374,312
Net Income Per Share (1954, 556,400 shares; 1953, 600,000 shares)	2.39	2.29
Dividends Per Share:		
Regular	1.00	1.00
Extra	.25	None
Shareholders Equity (Net Worth)	25,014,585	25,250,823
Working Capital	14,193,746	17,675,292
Long Term Loan	2,000,000	2,000,000

SIMPLIFIED BALANCE SHEET

AT END OF FISCAL YEAR, NOVEMBER 28, 1954

WHAT WE OWN . . .

	Thousands of Dollars	Percent
Cash and unrestricted government securities	$ 5,208	17.0%
Owed us by others	3,275	10.6
Goods on hand	9,535	31.1
Set aside for new plant building fund	3,500	11.4
Property and equipment (less wear and tear)	8,714	28.4
Other assets	475	1.5
	$30,707	100.0%

WHAT WE OWE . . .

	Thousands of Dollars	Percent
Net amounts owed which are due for payment in 1955	$ 3,825	12.4%
Long-term debt	1,867	6.1
Stockholders for their investment in the business	8,987	29.3
Stockholders for income earned in prior years and retained in the business net of treasury stock purchases	16,028	52.2
	$30,707	100.0%

TO THE STOCKHOLDERS

Saco-Lowell's total sales declined approximately seventeen per cent from 1953 levels, but net earnings, amounting to $1,331,994 ($2.39 per share), were approximately the same as the preceding year. This result was in part due to federal income tax and other adjustments made on our books in 1953 and 1954, explained in a footnote to the Summary of Consolidated Income (Page 16). Each of our four plants showed some profit on the past year's operations.

In view of the Company's financial condition the Directors felt that these earnings warranted payment both of the regular $1.00 dividend and a year-end extra of $0.25.

Low profit margins and uncertainty continued through the year to plague the textile industry. As a result, the volume of textile machinery business showed no improvement over the levels which prevailed in 1953, and was below what a year ago was considered to be our breakeven point. Success under such conditions in making a profit in 1954 reflects the strenuous, persistent efforts of management to whittle down overhead and other costs and adapt the organization to the prevailing low volume of operations.

While endeavoring to promote its regular textile machinery business, Saco-Lowell cautiously and on a highly selective basis continued to extend its activities in non-textile lines. In 1954, tooling was completed and deliveries were commenced on the Army Ordnance contract for .30 calibre machine guns announced in last year's Annual Report. A new contract has recently been signed calling for the manufacture of additional quantities of these guns.

This business has an importance out of proportion to the relatively small profit it yields. In my letter of last year mention was made of the urgent necessity of finding work for men and facilities idled by the dearth of textile machinery business. That necessity is no less today. Over the past twelve months, however, it has become apparent that our Army Ordnance work has done more than simply absorb overhead. Under highly competitive circumstances Saco-Lowell has established itself as a ranking supplier of non-textile metal products. Equally important, our extensive work with Army Ordnance representatives has created a relationship characterized by co-operation and a high degree of mutual respect. I have confidence that our reputation for dependability, experience, and technical competence is going to serve us well as we compete for future government contracts.

During 1954 Saco-Lowell obtained orders from other companies to manufacture non-textile metal products of widely varying characteristics. These orders are not individually large, but their implication is of considerable importance. The short-term policy of finding temporary work has become the long-range policy of adding permanent variety to our line in an effort to compensate for the feast-or-famine nature of the textile machinery business. The search for broad new areas where the Company might operate to advantage has been systematically conducted. In 1954 an office was set up solely to seek out and investigate opportunities for long-range diversification. During the year several possibilities of acquiring other companies were examined, though none have as yet been found completely suited to our needs.

Notwithstanding the various efforts to broaden its product base, Saco-Lowell is today, and will continue to be in the future, one of the world's foremost manufacturers of textile machinery. Our efforts in non-textile lines are separately organized and are not being allowed to distract attention from the market we have served for one hundred and forty-two years.

Realizing the basic importance to Saco-Lowell of efficient manufacturing space near the center of the American textile machinery market, the Directors late in 1954 authorized the establishment of a new plant in the South. This will be another step in the Company's long-term plan for rehousing its facilities for making textile machinery, and is a further direct investment in the future of this phase of our business. Questions concerning size and location of the plant and products to be made there are presently under consideration. When the new unit is ready, rearrangement of facilities already underway can be carried still further, thereby appreciably increasing the efficiency of operations remaining in Maine. New England has been our traditional home. Established, cordial community relations and a reservoir of highly skilled workmen constitute valuable assets. While acquisition of a new plant in the South will tend to reduce our employment in Maine, we intend to use our best efforts to find other work to replace the textile machinery manufacturing operations that are to be moved.

Present indications are that we will be operating somewhat above the breakeven point during the first quarter of 1955. Shipments of products already on order should build up as the year progresses and we get into production on certain non-textile items presently in early stages of manufacture.

Our textile machinery business, it seems increasingly clear, has been undergoing a substantial quantitative change. Over a period of years the consumption of synthetic filament yarns, which require comparatively little machinery of the type we make, has increased greatly. Paper and non-woven fabrics have replaced cloth for some purposes, the wearing qualities of clothing generally have been improved, and there has been a pronounced trend toward lighter dress. Technological improvements, many pioneered by this Company, enable mills today to obtain a given yarn output with far fewer machines than was the case even a few years ago. All these factors have combined to effect a substantial shrinkage in our market for textile machinery. Encroachment by foreign manufacturers threatens to reduce this market even more, and we are gravely concerned that present limited tariff protection may be reduced still further.

Against these prospects we must balance the fact that the possibilities of expanding output in the textile industry by starting up excess equipment or adding another shift have virtually ceased to exist. Spindles in place in the United States have declined from 38,000,000 in 1925 to 23,000,000 in 1954; machinery in place today is being worked so intensively that a substantial increase in demand for textiles can only be met by mill modernization and expansion. Present and well-confirmed basic trends in population and fiber consumption indicate that such increase in demand must be expected.

Taking these countervailing factors into account, it would appear that, if the national economy holds at something like existing levels of activity, we would be justified in looking for some increase in textile machinery orders in the forthcoming year.

In the statement mailed to stockholders with the June dividend last year you were advised that the Company had purchased some of its shares in the open market and might from time to time thereafter continue to purchase shares. In accordance with this policy, the Company has up to this date purchased and now holds in its treasury 49,400 shares of common stock, and may from time to time acquire additional shares in the open market in the future. The Board of Directors believes that it should be in a position to use these shares, as well as authorized but unissued shares, to satisfy stock options already granted or to be granted under the stock option plan authorized by the stockholders in 1952, as well as for any other lawful purpose, including the acquisition of assets or stock of other companies. Accordingly, in addition to the regular business of the annual meeting, stockholders will be asked to consider the matter of authorizing the Board of Directors to use shares held in the Company's treasury for such purposes.

In April of 1954 Saco-Lowell lost through death its senior director, Frank J. Hale. From 1912 to 1923 Mr. Hale was General Agent of the Saco-Lowell Shops, and through his whole career of sixty-six years in top management was a dominant influence in shaping the organization. His warm human qualities will be remembered by us all, along with his unswerving devotion to this Company.

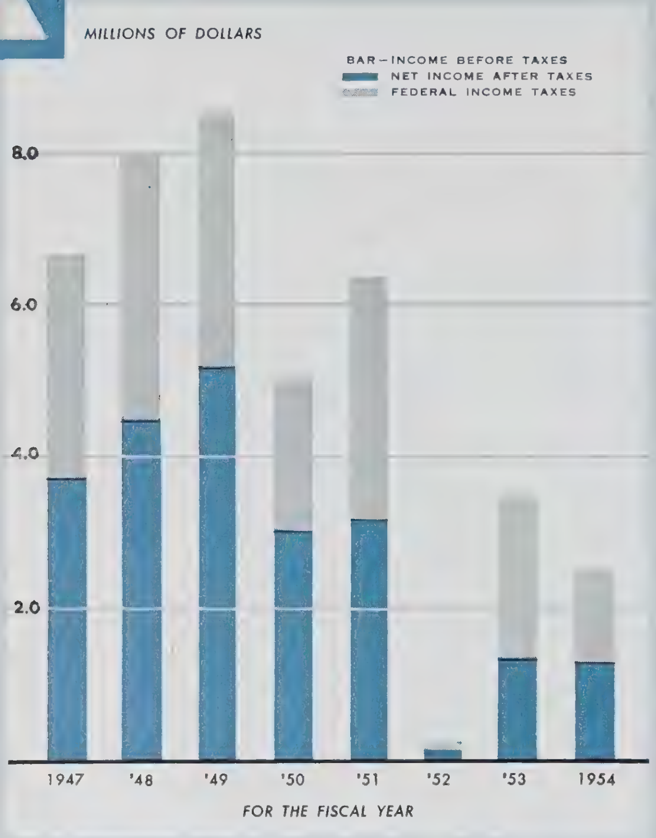
Looking back at the experiences of the Company in the twelve months just ended, I am encouraged to believe that your management can adapt the organization to whatever lies ahead. I would like both to thank our stockholders for their continued goodwill and to pay tribute to the performance of Saco-Lowell's employees, who with skill, industry, and enthusiasm have co-operated to advance the Company interest.

A Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, as well as more detailed information about last year's business, are presented in the following pages of this Report.

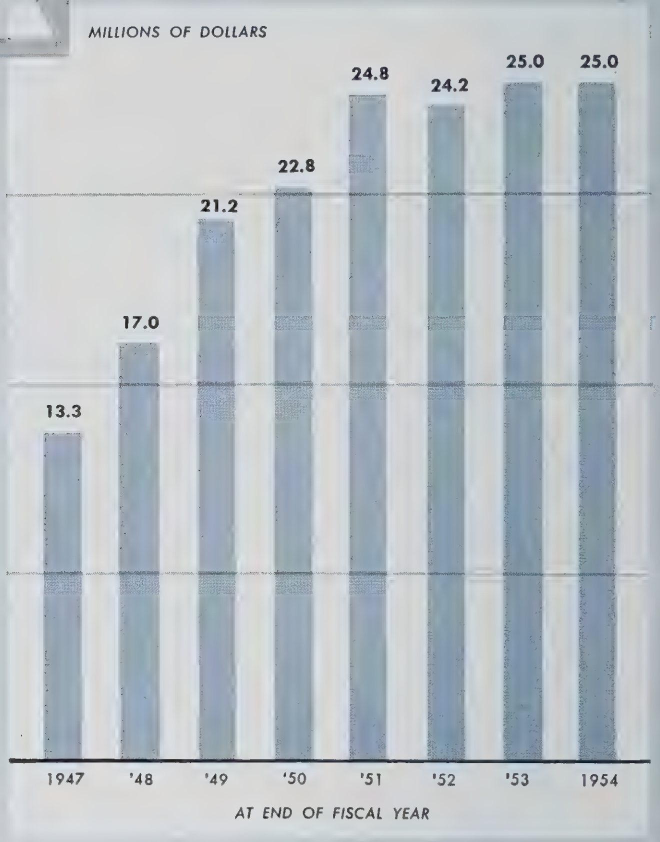
January 20, 1955

Malcolm D Shaffner
PRESIDENT

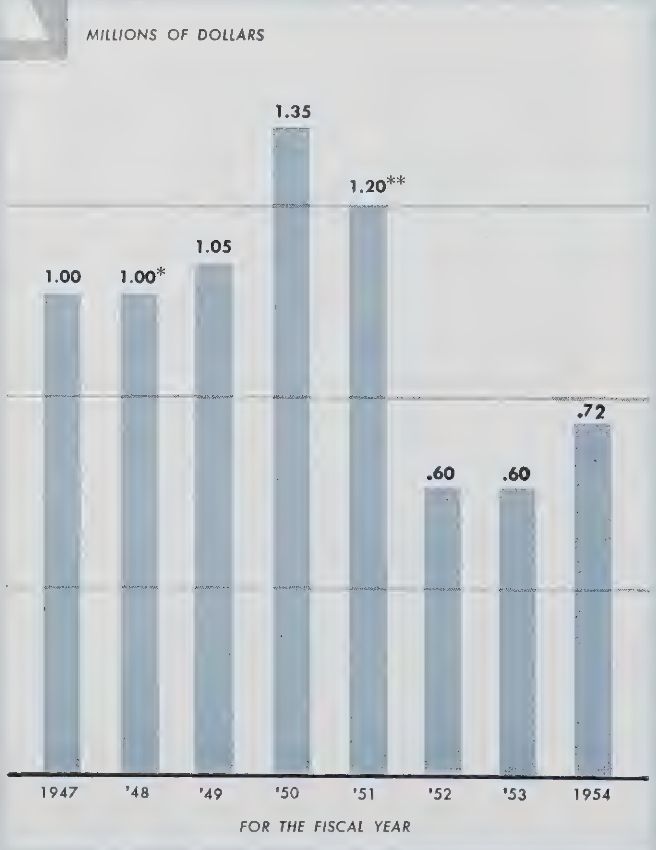
NET INCOME and FEDERAL INCOME TAXES



STOCKHOLDERS' EQUITY (NET WORTH)



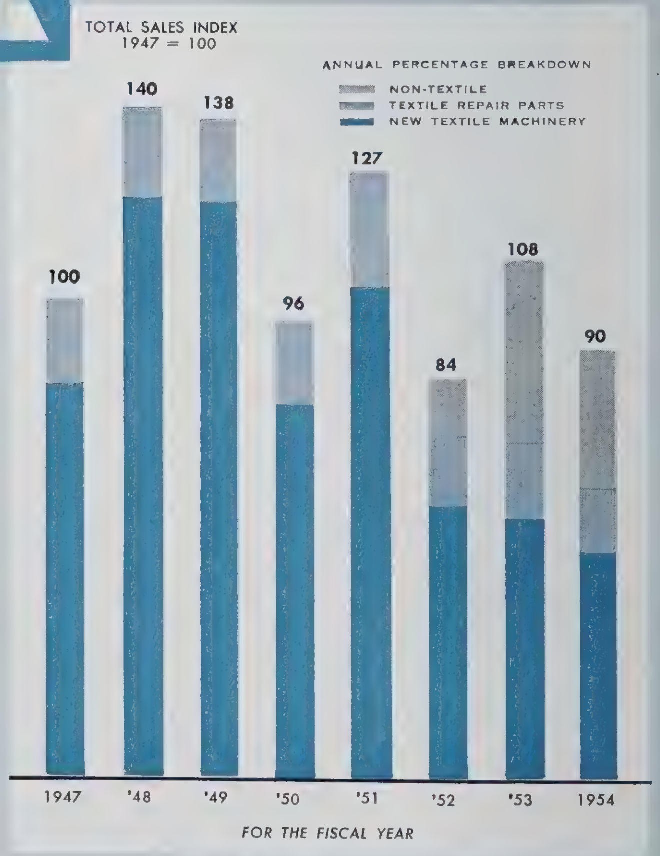
CASH DIVIDENDS



* PLUS 20% COMMON STOCK DIVIDEND — $2,000,000

** 2 FOR 1 STOCK SPLIT IN 1951

SALES BY MAJOR PRODUCT LINES



REPORT ON OPERATIONS

SALES AND MARKETS

TEXTILE MACHINERY

In 1954 sales of textile machinery continued at a relatively low level. While sporadic symptoms of an upturn were discernible in the textile industry, profit margins continued to be too low to engender broad interest in capital expenditures for new machinery.

Faced with the dullest domestic market since 1933, the Company intensified its selling effort. Considerable emphasis was laid on the point that new and highly efficient machinery is currently available for unusually prompt delivery.

The year saw a number of special undertakings by the Sales Department, all looking toward more intensive marketing and better customer service. One of these was our large display at the international exhibition sponsored by the American Textile Machinery Association in Atlantic City on April 26–30. While the results of any such exhibition are not readily measurable, the Company's display of new machines and accessories stirred lively interest among mill representatives from twenty-seven different nations who crowded the Saco-Lowell display throughout the five days of the exhibition.

The Sales Processing Department was established in Biddeford to analyze customer samples and to demonstrate new machines. Previously, assistance to customers in solving their technical difficulties had been rendered through use of the facilities of the Research and Development Division, with consequent impairment of our own development program. Improved and enlarged testing and demonstration equipment allocated to the new department will increase the effectiveness of both customer services and Company research.

REPAIR PARTS

In a move which we believe will prove to be of major marketing significance, Saco-Lowell in 1954 reorganized its Repair Parts Division and increased its efforts to expand this branch of the Company's business. A field force of salesmen experienced in machinery servicing was assigned to promote repair sales. Changes were made to centralize direction of the program, streamline inventory handling, and expedite shipments. These measures allow us to take full advantage of our large parts depot in Biddeford and the storage and service center opened last year at the Sanford Plant. A highly effective cataloging system has already been worked out whereby each customer is provided with electronically printed parts lists to match the individual requirements of his machines. The recently authorized new plant in the South will, when completed, further improve the Company's physical facilities for handling this business. Volume potential of the repair parts market, together with the natural tendency of mills to favor parts made by the manufacturer of their machines, justifies a major selling effort in this direction. The new repair parts marketing program will provide customers with significant benefits in the form of skilled, accurate servicing and rapid, economical deliveries of correct replacements.

REPORT ON OPERATIONS

NON-TEXTILE BUSINESS

In 1954 the last shipments under our contracts for .50 calibre machine guns were made from the Edwards Plant in Saco. Even before production lines closed down, work was underway to retool for the manufacture of two types of .30 calibre machine guns. In September the first of these guns was test-fired; acceptance by the Rock Island Arsenal followed soon after. The original .30 calibre gun contract will employ through October of 1955 about two-thirds of the facilities utilized on the .50 calibre gun order. A contract for additional .30 calibre guns was recently signed which will enable us to sustain the level of output through the first quarter of 1956.

Orders were obtained in 1954 from Harrington & Richardson, Inc. to manufacture components for the M1 rifle. These orders from a company distinguished for its sporting arms and one of the leading commercial ordnance specialists indicates our growing reputation in the field for quality work and dependable delivery. In November we agreed to participate with this firm in a developmental order for the new F-N rifle currently being considered for adoption by the Armed Forces.

Effort was also devoted to expanding our non-textile business in commercial fields. An order was obtained from the Ford Motor Company which provides an entry into the automotive parts market and should give us experience from which to decide on the desirability of further attention to this highly competitive but large-volume business.

Throughout the year the Sanford Plant continued to augment its regular textile machinery manufacturing operations with work on subcontracts for several products in the electronics and agricultural machinery fields. Operations at Sanford continued to show satisfactory results in spite of the unusually low level of textile machinery business.

Non-textile work of all kinds accounted for approximately one-third of our 1954 total sales volume. As a result of the growing importance of this phase of our business and the specialized effort and problems involved, a new department was established for the exclusive purpose of obtaining orders for non-textile products, both defense and commercial.

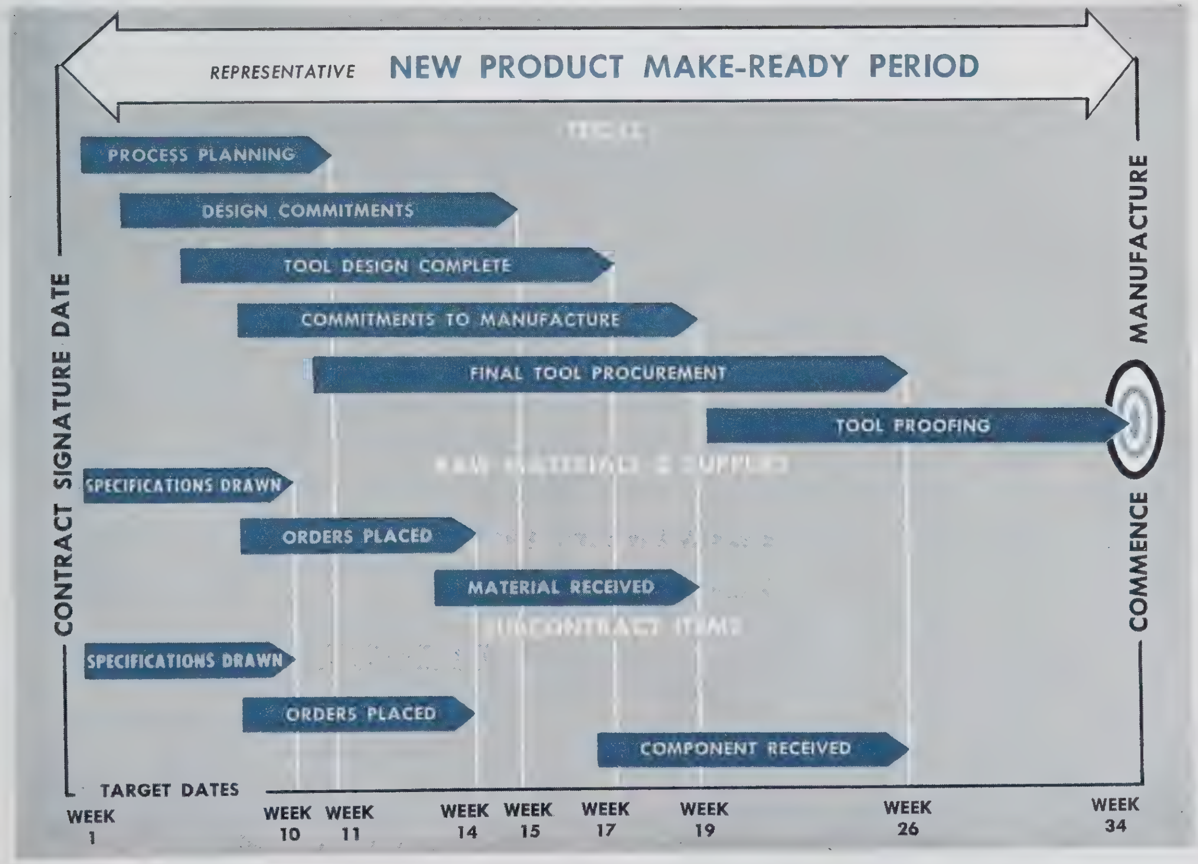
PLANT OPERATIONS

The challenge of low volume operations was faced in all our manufacturing divisions in the year past, but was particularly acute at Biddeford, where three-quarters of our textile machinery is manufactured and where plant facilities impose many obstacles to operating efficiency. Through well directed efforts in controlling overhead and lowering the breakeven point, a small profit was made on a volume which in other years would have occasioned a serious loss. A system of flexible operating budgets installed during the year has already proved helpful in regulating manufacturing expenditures.

In several operating departments substantial efforts were directed during the year to rearrangement of manufacturing facilities to handle new products. Relocating and retooling machinery is an immensely complicated, time-consuming, and costly process. Some idea of the planning and time lag involved may be gained from the accompanying chart, but this is, at best, a highly simplified presentation of the problem. Even when production lines are in operation, time is required to attain maximum cost efficiency. These production changes have significant financial implications. Some of the effort and cost expended in 1954 in preparing to manufacture new products will not begin to show returns in the form of sales until 1955.

Certain of these plant changes grew out of the completion in 1954 of the .50 calibre gun contract. A six months' interim agreement was entered into with the government to remove from the Edwards Plant and place in storage all government equipment not required for the .30 calibre machine gun contracts. We anticipate replacement of this agreement by a permanent layaway contract, the purpose of which will be to set up in accessible storage a complete gun manufacturing unit which could be reactivated in case of national emergency. The surplus tools are being removed to Biddeford, leaving space available in our most modern manufacturing unit. Several textile departments are being moved into this space, making it possible to rearrange operations at Biddeford in the interest of greater efficiency.

Further important manufacturing readjust-



REPORT ON OPERATIONS

ments will occur upon completion of the projected new plant in the South, which will house some of the operations currently being carried on in Biddeford. Following in the wake of the acquisition of the Sanford facilities in 1948 and the opening of the Edwards unit in Saco in 1952, the new plant will represent the third major step in our long-range modernization program. The decision to locate another plant in the South was dictated both by potential operating-cost advantages and by the desirability of having more of our operations close to our major textile machinery markets. This last consideration is particularly important to the repair parts business, where close communication and rapid delivery are essential. Details of exact location, specifications, and time of completion of this new manufacturing unit are now under consideration.

RESEARCH AND DEVELOPMENT

Over the past two years the favorable reputation of the Gwaltney spinning frame has continued to grow. Increasing appreciation by mill men of the advanced principles incorporated in this machine has led the Company to direct considerable research effort to extending the range of fibers which the Gwaltney frame will handle. In the past year two new drafting elements for this frame were made available, one for processing long-staple worsted and the other for synthetic fibers. Greater versatility was also built into the machine to permit it to handle the wide variations in set-up required in the production of worsted yarn.

Our new Model 16 Opener was exhibited for the first time at the Atlantic City show and was released for general sale thereafter. The Number 15 Opener, introduced in 1953, proved itself under operating conditions and went into volume production in 1954. These two machines ably support the tradition of leadership enjoyed by Saco-Lowell for many years in the field of opening and picking equipment.

Many textile machinery manufacturers today are forced to cater to the demand for changeover units — attachments incorporating modern refinements which can be installed on old machines. In 1954 Saco-Lowell, while stressing the advantages of the Gwaltney large-package spinning system, introduced important functional improvements on its Duo-Roth spinning elements for the changeover market.

A number of other accessories and improvements, such as the card control roll and the large-package coiler, were released for sale in 1954. Far from being restricted by the unsatisfactory level of business, research and development expenditures for 1954 were actually increased.

LABOR RELATIONS

In 1954 relations between the Company and the Textile Workers' Union of America (C.I.O.) were characterized by an informed and cooperative attitude on the part of the union representatives toward such labor problems as arose. Good communications have played a vital role in helping to build toward a healthy collective bargaining atmosphere. This result has in part been due to Company-sponsored periodic conferences between plant management representatives and union officials, at which Company and industry trends are discussed, questions freely asked and answered, and an effort made to see

REPORT ON OPERATIONS

that the factual basis for Company policy is clearly set forth.

The collective bargaining agreement between the Company and the Union, in effect since September 1950, will expire during the current year.

Total employment in all divisions of the Company declined from approximately 4,200 in November of 1953 to 3,800 in November of 1954. Of the 1954 total, approximately 800 were employed in ordnance work at the Edwards Plant, in comparison with 1,200 employed there at the same date a year ago.

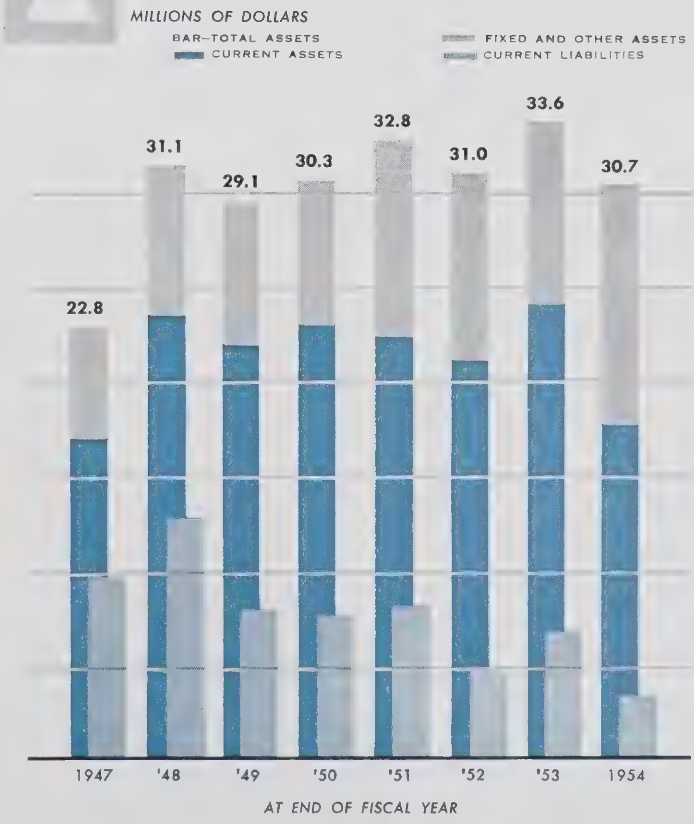
FINANCE

Saco-Lowell remained in a strong financial position through 1954. Cash resources were built up by liquidation of receivables which came about as a result of the slackening of our textile business and the payment of government balances due on the .50 calibre gun contract. Inventories were reduced to the extent of about $500,000.

The factors which originally dictated maintenance of a strong liquid position are no less real today. While $3,500,000 has already been set aside for acquisition of a new plant, this is by no means the final financial demand of our modernization program. Neither can the timing or amount of outlays for extending the product line or entering broad new phases of activity be predicted. Provision must be made to enable the Company to explore new business opportunities when they appear. At the same time, the Company must provide for the enlarged financial demands created by ordnance work already underway or soon to be undertaken. The current business situation also has dictated some liberalization of credit policy, which requires working capital. And finally, the Company must be in a position to finance anticipated expansion of activity in the textile machinery business. The large amounts of working capital required to meet all these needs and contingencies must be provided despite the prevailing low level of business.

In 1954 Saco-Lowell declared its regular dividends of $0.25 per share each quarter, a total of $1.00 for the year, and also declared a year-end extra dividend of $0.25. Our policy continues to be that of maintaining a stable and conservative dividend rate with such special year-end adjustments as are appropriate in view of operating results achieved.

ASSETS and CURRENT LIABILITIES



COMPARATIVE STATISTICS

	1954	1953	1952
OPERATIONS			
Income Before Federal Taxes On Income	$ 2,481,994	$ 3,474,312	$ 107,974
Federal Taxes On Income	‡ 1,150,000	‡ 2,100,000	50,000
Net Income	1,331,994	1,374,312	57,974
* Per share of common stock	2.39	2.29	.10
Cash Dividends On Common Stock	720,588	600,000	600,000
Per share of common stock	1.25	1.00	1.00
Earnings Retained For Use In Business	611,406	774,312	§ 542,026
FINANCIAL CONDITION			
Total Assets	$30,706,720	$33,585,182	$30,996,246
Long-Term Debt	1,867,000	2,000,000	2,000,000
Current Assets	18,018,881	24,009,651	20,938,515
Total Liabilities	5,692,135	8,334,359	6,769,735
Current Liabilities	3,825,135	6,334,359	4,769,735
Net Worth (based upon book values)	25,014,585	25,250,823	24,226,511
Working Capital	14,193,746	17,675,292	16,168,780
Wages And Salaries	$14,091,255	$17,395,596	$15,413,010
Number Of Shareholders At End Of Year	4,331	4,740	4,812

* Based upon 556,400 shares outstanding at end of 1954 and on 600,000 shares for all other years.

‡ Includes provision for defense plant standby and reconversion costs of $100,000 in 1954 and $250,000 in 1953.

§ Denotes red figure.

SACO-LOWELL SHOPS
and subsidiary

1951	1950	1949	1948	1947	1946
$6,420,167	$5,008,523	$8,496,351	$8,000,559	$6,335,664	$1,227,485
3,200,000	2,100,000	3,300,000	3,300,000	2,500,000	450,000
3,220,167	2,908,523	5,196,351	4,700,559	3,835,664	777,485
5.36	4.84	8.66	7.83	6.39	1.29
1,200,000	1,350,000	1,050,000	1,000,000	1,000,000	437,500
2.00	2.25	1.75	1.66	1.66	.72
2,020,167	1,558,523	4,146,351	3,700,559	2,835,664	339,985
$32,848,394	$30,367,274	$29,125,180	$31,129,928	$22,811,442	$16,698,669
			1,350,000		1,500,000
22,201,820	22,792,534	21,976,389	23,434,724	16,782,756	11,635,259
8,079,857	7,618,904	7,935,333	14,086,433	9,468,506	6,191,397
8,079,857	7,618,904	7,935,333	12,736,433	9,468,506	4,691,397
24,768,537	22,748,370	21,189,847	17,043,495	13,342,936	10,507,272
14,121,963	15,173,630	14,041,056	10,698,291	7,314,250	6,943,862
$17,193,328	$14,382,992	$15,400,796	$19,119,306	$13,847,451	$10,151,296
4,338	3,234	2,919	2,784	2,647	2,692

CONSOLIDATED BALANCE SHEET

AS OF NOVEMBER 28, 1954 AND NOVEMBER 29, 1953

ASSETS	November 28, 1954	November 29, 1953
Current Assets:		
Cash	$ 1,467,382	$ 2,327,204
United States Government securities (at cost)	3,740,991	3,703,885
Receivables:		
Textile (less reserves)	3,039,835	4,123,368
Other (principally United States Government)	235,215	2,825,503
Reimbursable costs chargeable to United States Government for facilities and special tooling		1,008,253
Inventories (not in excess of the lower of cost or market value)	9,535,458	10,021,438
Total current assets	$18,018,881	$24,009,651
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 221,468	$ 181,527
Textile receivables not currently due	153,738	79,205
Sundry receivables and advances	55,068	58,524
Miscellaneous securities (less reserve)	12,501	12,501
Total miscellaneous assets	$ 442,775	$ 331,757
New Plant Building Fund (United States Government securities—at cost)	$ 3,500,000	
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values) (Note 1)	$ 8,713,580	$ 9,189,499
Prepaid Expenses (principally insurance)	$ 31,484	$ 54,275
Total Assets	$30,706,720	$33,585,182

NOTES

1. The Company has been granted a Certificate of Necessity covering the Edwards Plant in Saco, Maine, which permits the amortization for tax purposes of 40% of the cost of the building over a five-year period ending November 30, 1956. Operations have been charged with the amortization applicable to the current year.
2. In addition to the fixed annual amounts payable on note issued to an insurance company, the loan agreement provides for annual provisional payments beginning March 1955, based upon net income of the preceding year. Earnings for the year ended November 28, 1954 were not sufficient to require a provisional payment in 1955. Under the loan agreement, the Company must maintain its current assets in excess of current liabilities in an amount of at least $7,000,000.
3. Of the 35,000 shares reserved under the Company's Restricted Stock Option Plan, options to purchase 14,850 shares at $14.00 a share were granted to sixteen officers and employees in June 1953, exercisable under certain conditions during the period from June 8, 1955 to June 7, 1960. The price of $14.00 was slightly in excess of the market value of the stock at the date the options were granted.
4. Certain sales during 1954 under United States Government contracts are subject to renegotiation. Renegotiation proceedings have not been commenced. The management is of the opinion that no excessive profits have been realized on such sales. Renegotiation proceedings for prior years have been finalized without refunds to the Government.
5. At November 28, 1954 the Company was contingently liable in the amount of $178,254 to a bank on drafts payable by a foreign customer in the event of his default and the default of a foreign bank which guaranteed payment of the drafts.

SACO-LOWELL SHOPS
and subsidiary

LIABILITIES, RESERVES AND CAPITAL

	November 28, 1954	November 29, 1953
Current Liabilities:		
Accounts payable	$ 1,222,491	$ 1,375,410
Dividend payable	278,200	150,000
Customers' advance payments on sales contracts	306,734	659,585
Current instalments on long-term debt	133,000	
Accrued liabilities:		
Federal income taxes (1954, less $1,000,000 United States Government securities)	371,477	2,199,988
Social security, state, and local taxes	183,700	205,437
Payrolls and vacation pay	544,014	644,812
Agents' commissions	177,388	245,560
Other accruals	608,131	853,567
Total current liabilities	$ 3,825,135	$ 6,334,359
Long-Term Debt — 15-year 3½% note payable; instalments of $133,000 due in 1955 and annually thereafter, with provisional payments (Note 2) (excludes current instalments shown above)	$ 1,867,000	$ 2,000,000
Reserves:		
For defense plant standby and reconversion costs	$ 155,456	$ 250,000
Amounts appropriated for excess of replacement cost over original cost of plant property	1,750,000	1,750,000
For contingencies	1,000,000	1,000,000
Total reserves	$ 2,905,456	$ 3,000,000
Capital Invested In Business:		
Common stock — $2.50 par value (authorized, 1,200,000 shares, of which 35,000 shares are reserved for stock options — see Note 3; issued, 600,000 shares)	$ 1,500,000	$ 1,500,000
Capital surplus:		
Paid in by stockholders	5,736,638	5,736,638
Earnings capitalized in connection with stock dividend in 1948	1,750,000	1,750,000
Earned surplus	13,875,591	13,264,185
Total	$22,862,229	$22,250,823
Less treasury stock (43,600 shares at cost)	753,100	
Capital invested in business	$22,109,129	$22,250,823
Total Liabilities, Reserves and Capital	$30,706,720	$33,585,182

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary as of November 28, 1954 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; it was not practicable to confirm receivables from the United States Government but we have satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 28, 1954 and, in condensed form, the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Boston, January 11, 1955.

SACO-LOWELL SHOPS and subsidiary

SUMMARY OF CONSOLIDATED INCOME

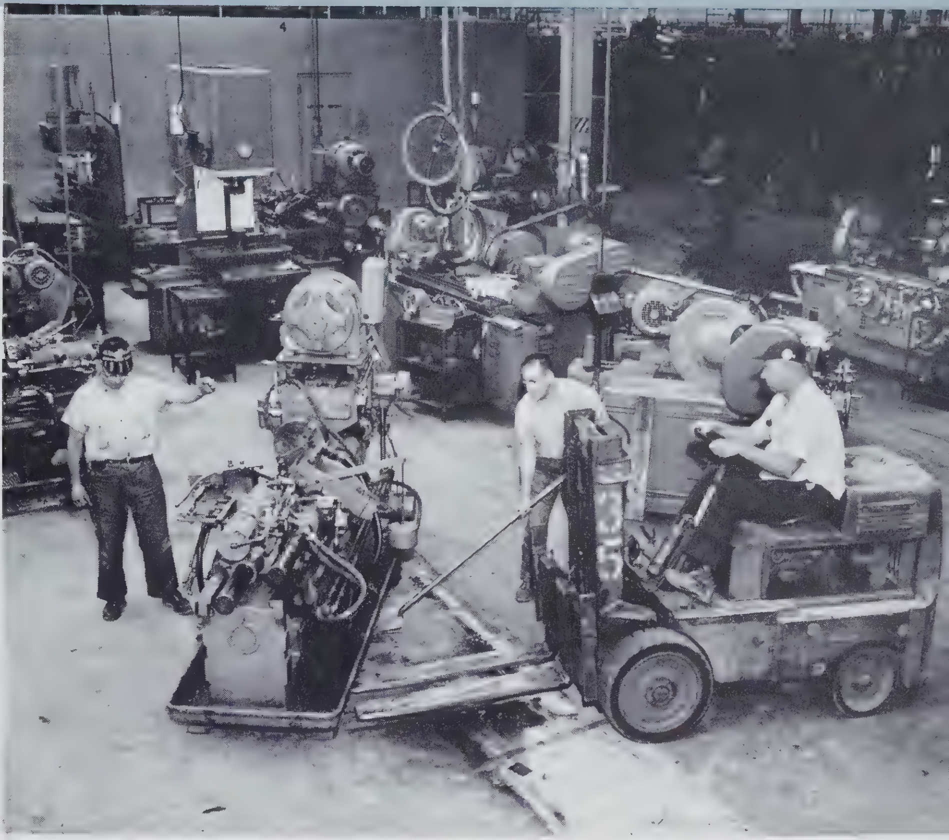
	Fiscal Years Ended November 28, 1954	November 29, 1953
Operating Profit Before Depreciation And Amortization	$ 3,341,323	$ 4,267,419
Provision For Depreciation And Amortization (Note 1)	951,632	932,901
Operating Profit	$ 2,389,691	$ 3,334,518
Add:		
Interest earned	130,727	96,038
Net gain on sale of land and buildings		107,798
Miscellaneous income credits — net	33,758	6,066
Total	$ 2,554,176	$ 3,544,420
Deduct — Interest expense	72,182	70,108
Income Before Provision For Federal Tax On Income And Plant Standby And Reconversion Costs	$ 2,481,994	$ 3,474,312
Deduct:		
Provision for Federal tax on income	* $ 1,050,000	$ 1,850,000
Provision for defense plant standby and reconversion costs	100,000	250,000
Total	$ 1,150,000	$ 2,100,000
Net Income For The Year	$ 1,331,994	$ 1,374,312

* The provision for Federal income taxes in 1954 in relation to the net income before taxes was proportionately less than in 1953 principally because in 1954 the Company had a tax benefit from substantial expenditures during the year which were charged against reserves provided out of income of prior years (at which time the provisions were not deductible); also a reversal in 1954 of a portion of such prior year reserve provisions which did not constitute taxable income.

SUMMARY OF CONSOLIDATED EARNED SURPLUS

	Fiscal Years Ended November 28, 1954	November 29, 1953
Earned Surplus At Beginning Of Year	$13,264,185	$12,489,873
Add — Net income for the year	1,331,994	1,374,312
Total	$14,596,179	$13,864,185
Deduct — Cash dividends (1954, $1.25 a share; 1953, $1.00 a share)	720,588	600,000
Earned Surplus At End Of Year	$13,875,591	$13,264,185

The notes on the accompanying balance sheet are an integral part of these summaries.



At one time the rigidity of plant layout discouraged product changes. The versatility of modern facilities has introduced entirely new manufacturing concepts and vastly enhanced the flexibility of managerial planning. Picture taken at the Edwards Plant in Saco, Maine, at time of retooling for .30 calibre machine gun contracts

The complicated, massive, costly nature of facilities employed in manufacturing operations at the Edwards Plant are indicated by this photograph of machine tools being readied for layaway and conversion to a new Army Ordnance contract

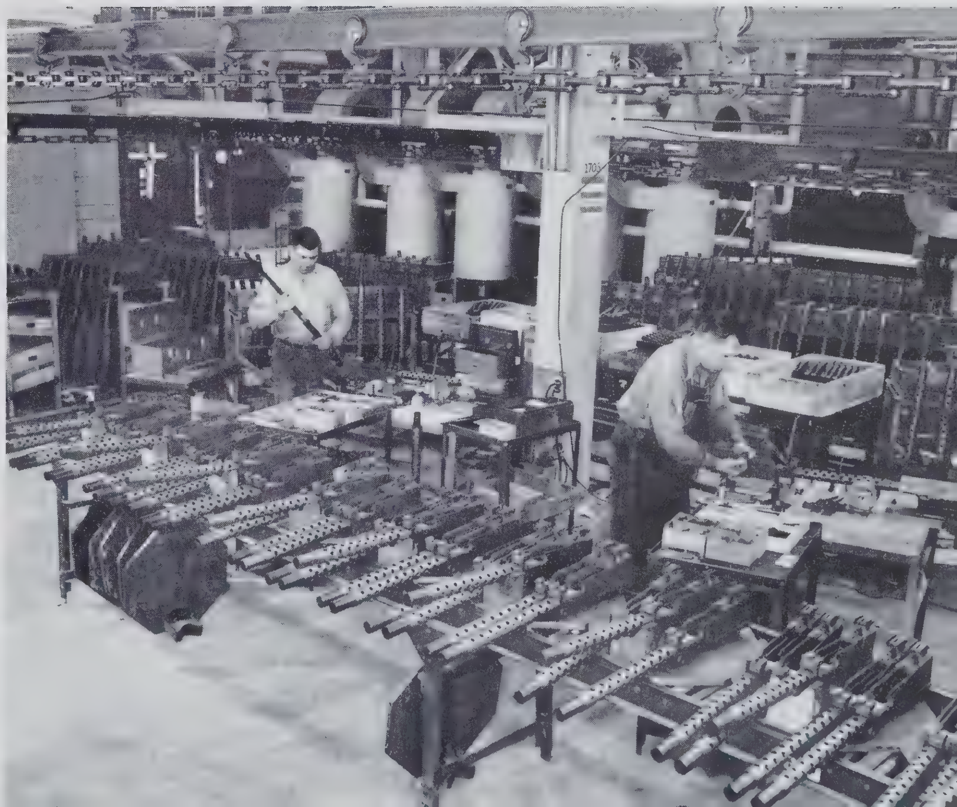
1954 ATLANTIC CITY EXHIBITION

AMERICAN TEXTILE
CHINERY
ASSOCIA

Careful planning and skillful arrangement of our exhibit at the 1954 American Textile Machinery Association show at Atlantic City dramatically displayed Saco-Lowell's new cost-reducing machinery to an audience composed of mill representatives from every textile-producing country in the world

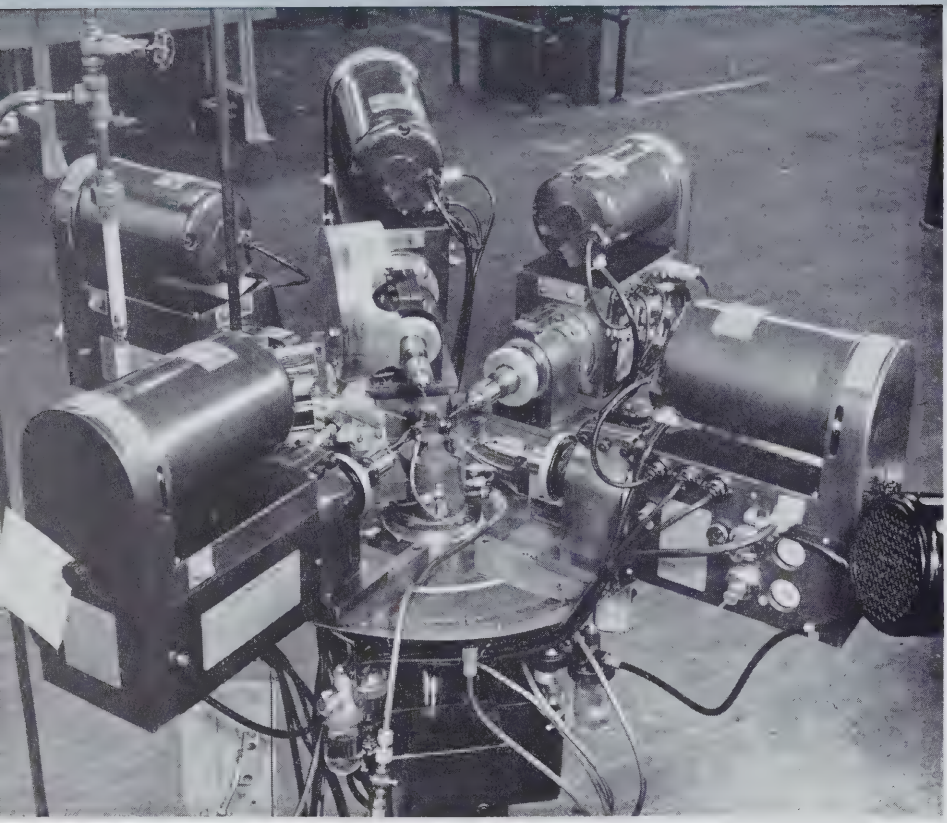
SACO-LOWELL S

A section of the large erecting floor at Saco-Lowell's Sanford, North Carolina, Plant showing preliminary assembly of drawing frames. Sanford now manufactures all of the Company's combers, lap winders, drawing frames and continuous strippers, as well as many replacement parts and non-textile items



Pre-final assembly of .30 calibre machine guns at the Edwards Plant in Saco, Maine. Saco-Lowell's outstanding performance under its Army Ordnance contracts has qualified the Company for increasing responsibilities in the national security program

1954 PICTORIAL REVIEW



Complicated special tooling is required for much of Saco-Lowell's non-textile business. Shown in the photograph is a multiple drill used in manufacturing automotive parts for the Ford Motor Company

A battery of Number 7 Cleaning and Blending Feeders with Number 15 Openers in operation at the Dana Warp Mills, Westbrook, Maine. This was the first complete mill installation of Number 15 Openers, one of Saco-Lowell's recent contributions to textile technology

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C

Section of the replacement parts depot at Biddeford. A complete stock of current parts makes it possible to give mills unusual service. Seventy-five per cent of the orders received are shipped within forty-eight hours

60 BATTERYMARCH STREET
BOSTON, MASSACHUSETTS

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Annual Report

for the fiscal year 1955

SACO-LOWELL SHOPS

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on February 21, 1956. Notices of the meeting and proxy forms are being mailed under seperate cover. Stockholders unable to be present are urged to send in their proxies promptly.

SACO-LOWELL SHOPS

Annual Report

FOR THE FISCAL YEAR ENDING NOVEMBER 27

1955

EXECUTIVE OFFICES: 60 BATTERYMARCH STREET, BOSTON, MASSACHUSETTS

PLANTS AT: BIDDEFORD AND SACO, MAINE,
PAWTUCKET, RHODE ISLAND, SANFORD, NORTH CAROLINA

SALES OFFICES: ATLANTA, GEORGIA, CHARLOTTE, NORTH CAROLINA,
GREENSBORO, NORTH CAROLINA, GREENVILLE, SOUTH CAROLINA,
DETROIT, MICHIGAN

FOREIGN SALES REPRESENTATIVES in principal textile manufacturing centers throughout the world

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SACO-LOWELL SHOPS

DIRECTORS

David F. Edwards
Chairman of the Board

Edward S. French
President, Jones & Lamson Machine Company

Roger D. Hale
Director, Scott & Williams, Inc. and Penn Metal Co., Inc.

Ralph Hornblower
Partner, Hornblower & Weeks

Charles F. Hovey
Partner, Herrick, Smith, Donald, Farley & Ketchum

W. Frank Lowell
Senior Vice President

John T. Noonan
Partner, Herrick, Smith, Donald Farley & Ketchum

Jerome Preston
Senior Partner, Preston Moss & Company

William H. Raye, Jr.
Vice President, The First National Bank of Boston

Thorvald S. Ross
Chairman of the Board, Rivett Lathe & Grinder, Inc.

Malcolm D. Shaffner
President

Philip H. Theopold
Partner, Minot, Deblois & Maddison

OFFICERS

David F. Edwards	*Chairman of the Board*
Malcolm D. Shaffner	*President*
W. Frank Lowell	*Senior Vice President*
J. Arnold Kiely	*Vice President and Clerk*
R. M. Jones	*Vice President*
E. J. McVey	*Vice President*
H. K. Smyth	*Vice President*
F. Gorham Brigham, Jr.	*Treasurer and Secretary*
Douglas H. Sears	*Comptroller*
Robert W. Corson	*Asst. Comptroller*
Charles F. Hovey	*Asst. Secretary*

GENERAL COUNSEL

Herrick, Smith, Donald, Farley and Ketchum
Boston, Mass.

REGISTRAR

The First National Bank of Boston
Boston, Mass.

TRANSFER AGENT

Boston Safe Deposit & Trust Company
Boston, Mass.

ACCOUNTANTS

Haskins & Sells
Boston, Mass.

FINANCIAL SUMMARY

	1955	1954
Net Sales	$34,261,872	$30,937,369
Income Before Federal Tax And Reconversion Costs	2,746,768	2,481,994
Net Income	1,375,768	1,331,994
Net Income Per Share (1955, 541,850 shares; 1954, 556,400 shares)	2.54	2.39
Dividends Per Share:		
Regular	1.00	1.00
Extra	.25	.25
Shareholders' Equity (Net Worth)	25,376,419	25,014,585
Working Capital	14,564,024	14,193,746
Long-Term Loan	1,734,000	1,867,000
Ratio Of Current Assets To Current Liabilities	4.1 to 1	4.7 to 1

SIMPLIFIED BALANCE SHEET

(DOLLAR FIGURES IN THOUSANDS)

	1955		1954	
	Dollars	Percent	Dollars	Percent
Cash and Government Securities	$2,512	7.9%	$ 5,208	17.0%
Receivables	5,446	17.1	3,275	10.6
Goods on Hand	11,297	35.5	9,535	31.1
Set Aside for New Plant (Government Securities)	3,365	10.6	3,500	11.4
Property and Equipment (Less Depreciation)	8,683	27.3	8,714	28.4
Other Assets	498	1.6	475	1.5
Total	$31,801	100.0%	$30,707	100.0%
Current Liabilities	$4,690	14.7%	$3,825	12.4%
Long-Term Debt	1,734	5.5	1,867	6.1
Reserves	2,897	9.1	2,905	9.5
Invested by Stockholders	8,986	28.3	8,987	29.3
Earned Surplus (Less Treasury Stock)	13,494	42.4	13,123	42.7
Total	$31,801	100.0%	$30,707	100.0%

TO THE STOCKHOLDERS

In 1955 net sales were $34,261,872. Net income of $1,375,768 was slightly higher than in 1954, amounting to $2.54 per share, based on the number of shares outstanding at the end of 1955. During the year payment was authorized of the regular dividends of $1.00 per share and a year-end extra of $0.25 per share.

The past year brought a significant change in the textile industry and in our business. In the first half of the year, the volume of textile machinery shipped was well below the breakeven point, but by late spring a noticeable and sustained upturn in orders began to take place. Because of the long interval which must elapse between receipt of new orders and shipment of finished products, this pickup was not reflected to a major extent in operating results until the fourth quarter. Thus, for much of the year many of our manufacturing divisions worked under the handicap of low volume operations. As in 1954, close control of overhead, improvements in the efficiency and economy of manufacturing methods, and the installation of modern machine tools tended to offset increases in the cost of labor and materials and enabled the Company to make a profit in each of its divisions.

Non-textile work, principally ordnance items, constituted a substantial part of the year's business. Continuing efforts were made to extend non-textile business in certain commercial lines. Experience to date in the automotive-parts field has been particularly encouraging. In 1955 Saco-Lowell added new automotive customers and expanded the list of parts already being successfully manufactured and sold. As is customarily the case with initial business relationships, most of the new orders are relatively small. They nevertheless constitute valuable contacts in this field and have excellent development possibilities.

During the year management examined thirty opportunities to acquire other companies. Four of these were of sufficient promise to merit detailed investigation. Diversification, however, is not a goal in itself. It is simply the means to an end. The real goal is long-term growth of volume and earnings with attendant minimization of the violent fluctuations that have long characterized this capital goods industry. All proposals to diversify by acquiring other companies must pass the most rigid tests to ensure that our basic objectives are really served. Of all possibilities available to us to date none in the last analysis has proved suitable. Our interest in diversification has increased, and new possibilities are being investigated.

In 1955 several important decisions were made affecting the rehousing of our business in Maine and in the South. As the work on current ordnance contracts is completed at the Edwards plant in Saco, textile machinery operations are being transferred to this modern, one-story building from the old multi-storied space in Biddeford. This transfer will be completed during 1956. After an exhaustive survey of potential locations for a new plant, land was purchased at Easley, South Carolina, about twelve miles southwest of Greenville. The Easley facilities, now under construction, are scheduled for completion by late summer of 1956. We will then have our textile machinery operations housed principally in three efficient, single-story buildings in Saco, Maine; Easley, South Carolina; and Sanford, North Carolina. There will remain in Biddeford a few textile machinery operations and our non-textile work, occupying only that space well suited for such requirements. The cost of this rehousing program is estimated to be about six and one-half million dollars. From this investment Saco-Lowell will derive very real manufacturing economies and, at the same time, substantial marketing advantages from having a large, modern plant in the geographic center of the American textile industry. I believe that it is of particular significance to the stockholders that in a period of less than a decade the Company will have moved its textile machinery manufacturing operations out of an inheritance of antiquated, outmoded buildings into modern plants.

During the year the Company maintained a liquid position in anticipation of the rehousing program and the expansion of non-textile operations.

Continuing the policy adopted in 1954, the Company purchased during 1955 an additional 18,550 shares of its common stock, bringing the total of such acquisitions to 62,150 shares. This stock is available to meet the requirements (35,000 shares) of the Restricted Stock Option Plan adopted by stockholders in 1953, for acquiring other businesses, or for other corporate purposes.

Looking ahead, it would appear that a more optimistic attitude than has prevailed in recent years is justified. Depressed conditions in the textile industry over the past five years have eliminated many marginal producers and caused a significant shrinkage in the number of spindles in place. Poor earnings have discouraged new plant construction. At the same time, however, the steady growth of population and maintenance of the nation's general economic health have generated mounting market pressures. As a result, fiber consumption, spindle activity, and unfilled orders at the mills are currently at the highest levels in several years. Despite the fact that most mills are now operating on a three-shift basis, cloth inventories have not accumulated and prices have held steady. The capacity of the textile industry is not only strained to meet today's demands but is clearly inadequate to deal with any future increase in those demands unless existing productive facilities are augmented. The only apparent obstacle to better business for American machinery manufacturers lies in the tariff situation. The threat of foreign products built by labor commanding wages far below American standards continues to be real, not only for Saco-Lowell but for a great many capital goods producers whose survival is essential for military as well as economic reasons.

If the continued threat of foreign competition is excepted, factors within Saco-Lowell bear out the general impression of optimism created by textile industry trends. The volume of textile machinery orders on hand at the end of 1955 was well above that of a year ago. During the interval when demand for new textile machinery was held back by depressed conditions, significant technological improvements were being made. This circumstance makes extensive re-equipping of American mills acutely necessary. At the same time, our non-textile business with private customers is expanding and there is good reason to believe that we shall continue to participate in the national defense program. The plant modernization program, moreover, promises a long-term strengthening to all branches of operation.

At close range, even after giving due weight to the termination in June, 1956, of our present ordnance contracts and to the heavy non-recurrent expenses that will be incurred during the forthcoming year in the plant modernization program, we can with reasonable assurance expect that, if the national economy maintains its present vigor, net earnings after taxes in 1956 will be equal to, or better than those of any of the past three years.

Stockholders at their last meeting elected two new directors: Mr. Jerome Preston, senior partner of Preston, Moss & Company, and Mr. Charles F. Hovey, partner in Herrick, Smith, Donald, Farley & Ketchum.

Once again, as the close of the year calls back into focus the events of the past twelve months, I wish to express my appreciation to those who have worked loyally and effectively with me in the Company interest. Important and exceedingly difficult problems were resolved through the personal sacrifice, the skill, and the initiative of many individuals. Such faithful assistance and teamwork will be needed no less in the year to come if Saco-Lowell is to exploit successfully the promising opportunities that lie ahead.

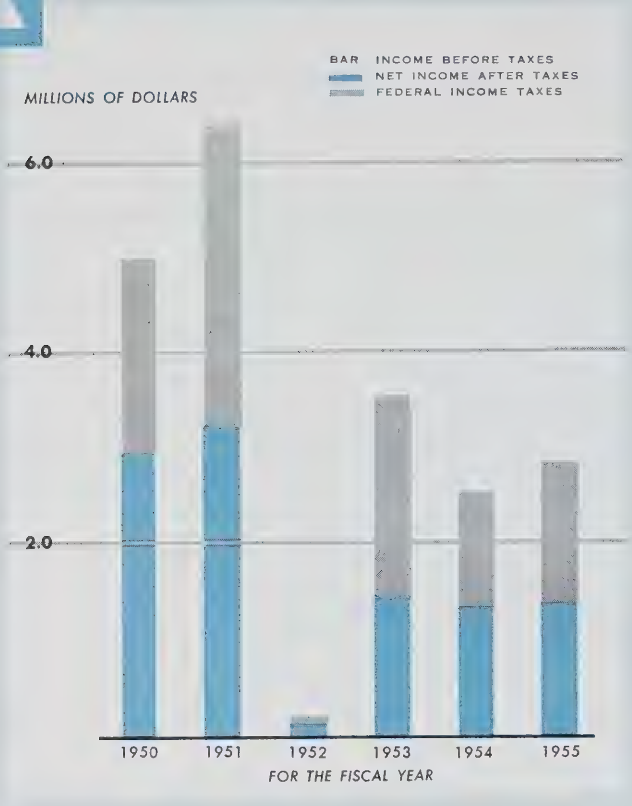
A Consolidated Balance Sheet and Summaries of Consolidated Income and Consolidated Earned Surplus, as well as more detailed information about last year's business, are presented in the following pages of this report. Proxy forms and notices of the Annual Meeting of Stockholders are now being sent out. I should like to ask those stockholders who are unable to attend the Annual Meeting to send in their proxies at their earliest convenience.

January 14, 1956

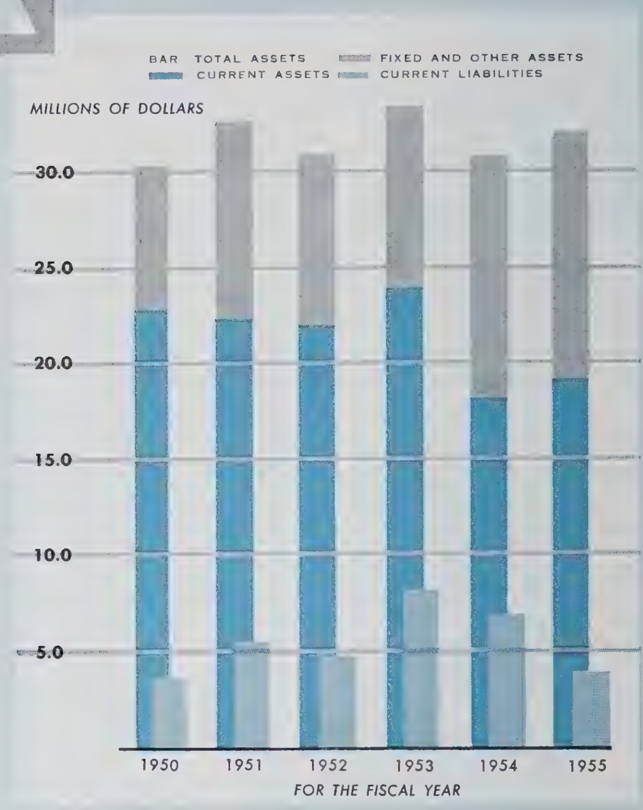
Malcolm D Shaffner

President

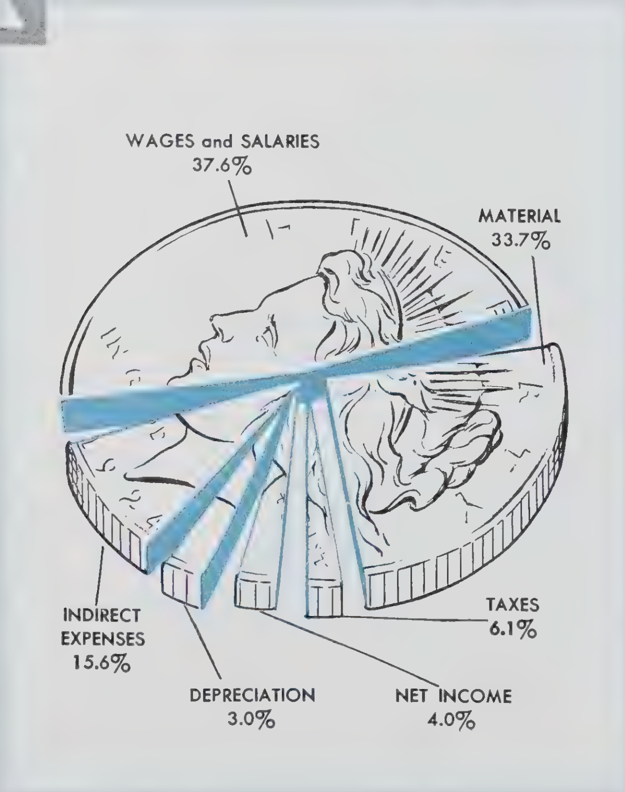
NET INCOME and FEDERAL INCOME TAXES



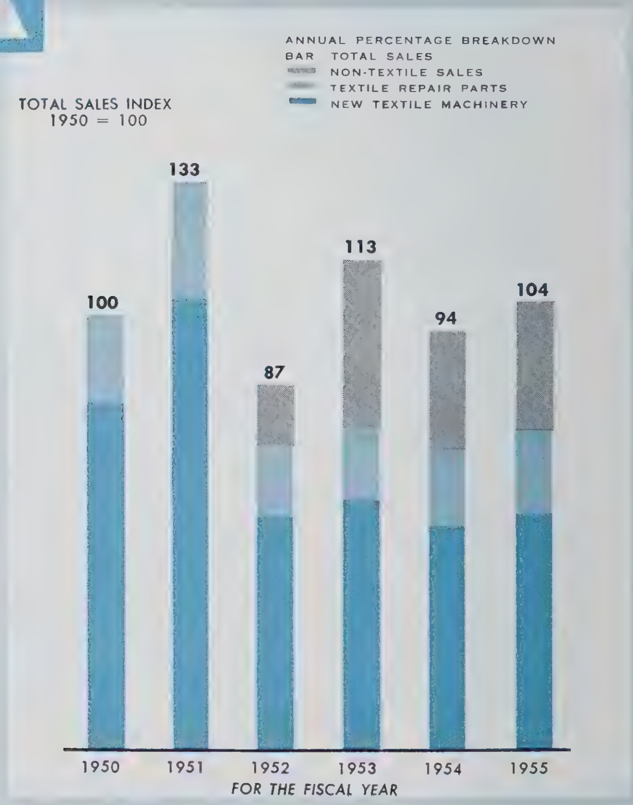
ASSETS and CURRENT LIABILITIES



1955 SALES DOLLAR



SALES BY MAJOR PRODUCT LINES



REPORT ON OPERATIONS

SALES AND MARKETS

TEXTILE MACHINERY

During the first half of 1955 machinery sales held to the same depressed level that characterized business throughout 1954, and competition for business was extremely keen. About mid-year, however, as a result of improved conditions in the textile industry, mill owners showed a livelier interest in modernizing their plants and taking advantage of favorable delivery quotations. The market climate continued to improve throughout the remainder of the year.

In 1955 Saco-Lowell's Gwaltney Spinning Frame continued to provide convincing demonstrations of production versatility and market popularity. No machine introduced in the last decade has had so profound an effect upon the textile industry, and demand for this highly efficient spinning system is still expanding. Modifications designed to increase still further the adaptability of the Gwaltney frame found ready acceptance in a market where a succession of new fibers and blends has required increasingly frequent shifts in production runs. The adaptation in the past year of Gwaltney spinning to worsted has established new performance benchmarks in that area of operations.

Excellent sales showings were also made by the High-Production Comber, our new line of opening equipment, and Duo-Roth Changeovers for converting conventional spinning systems to handle longer drafts. The Model 56 Comber, with the highest output of any comber made in the world today, meets a direct, urgent demand for more rapid production of fine combed yarns. Similarly, the new line of opening equipment proved to be the answer to difficulties caused by increasing use of machine-picked cotton. The success of these and other products in the Company line derives from careful study of changing market needs and prompt, effective developmental work to meet them.

The unexcelled performance of our machines, coupled with intensive selling effort, has enabled Saco-Lowell not only to improve its position in domestic markets but also to continue, in the face of increasing difficulties, to make sales in some markets abroad. Our exhibit at the Second International Textile Show in Brussels, Belgium, June 25 to July 10, 1955, attracted much favorable comment from foreign mill men and at the same time provided Saco-Lowell representatives with new insights into the competitive situation we face both at home and abroad. The year brought new demonstrations of the difficulties of competing with foreign machinery manufacturers paying wages one-third to one-half those prevailing in our own plants. At the same time the level of our foreign sales was adversely affected by import restrictions, embargoes, tariffs, and dollar shortages, and it was manifestly harder to do business abroad in 1955 than in preceding years.

The 1953 and 1954 annual reports both stressed the threatening tariff situation under which the Company is forced to operate. In the past year the reciprocal aid program of the United States was administered in a manner seriously detrimental to a number of basic American industries, including our own. In June, the government agreed at Geneva to additional reductions in duties on textiles that loosed a flood of Japanese imports. This action hurts us because it hurts our customers. This precedent, moreover, is alarming. All of us appreciate the political and military necessities that our country faces. What concerns us is not only the policy adopted by the United States Government of de-emphasizing the domestic costs of the reciprocal aid program, but also its failure to match the efforts currently being made by many foreign governments in extending active support to exporting interests.

In an effort to offset the difficulties of price competition and import restrictions, Saco-Lowell in 1955 concluded arrangements with Spinnbau, G.m.b.H., of Bremen-Farge, Germany, to build its complete line of Opening and Picking equipment. Production is already underway, and orders have been booked. Spinnbau, possessing many years' experience in the textile machinery business, is well equipped with plant and personnel to do this exacting job. The Spinnbau machines are being built to precise Saco-Lowell specifications and are sold and serviced by Saco-Lowell. The extent of the cost savings will not be known until Spinnbau has been in production for some time, but even the elimination of ocean shipping charges and alleviation of the difficulties of obtaining dollar exchange should go far toward enabling this German-built Saco-Lowell machinery to be sold abroad at competitive prices.

An agreement was also concluded whereby the Glasgow, Scotland, firm of J. & T. Boyd, Ltd., producers of worsted machinery for over 100 years, has been licensed to manufacture and sell Saco-Lowell worsted roving and spinning frames in Great Britain, where the import restrictions referred to above have hitherto made sale of American worsted machinery virtually impossible even to those mills that would gladly have paid the higher price for our equipment. Penetration of this market is particularly gratifying in view of the fact that the English have for years been recognized as the leading manufacturers of worsted machinery.

REPAIR SALES

The reorganization of our Repair Parts Division announced in last year's report has yielded encouraging results. Statistical evidence of the drive to enlarge our share of this market may not be conclusive, but the fact is that in 1955 sales of repair parts increased 19 per cent. Obvious, though unmeasurable, benefits also accrue from improved customer servicing and more frequent calls by Saco-Lowell representatives.

During the past twelve months sales territories were carefully analysed, the sales organization strengthened, and marketing controls tested. Efforts in the field were backed by a three-pronged program of advertising, featuring actual engineering comparisons between Saco-Lowell parts and those of competitors, institutional advertisements, and direct appeal copy pointing up specific features of Saco-Lowell repair parts. Publication was also commenced of a quarterly house organ entitled *Saco-Lowell Repair Parts News*. The *News*, circulated to all present customers and potential prospects, incorporates reports on latest Company products, pertinent engineering data, instructions on parts replacement procedure, and other information of practical value to mill executives and supervisors. Reactions from our customers to this new channel of communication have been most satisfactory.

Vigorous field emphasis on merchandising has been backed up by extensive internal adjustments, many of which are still in progress. The intent of these adjustments is to mechanize virtually every step in the process, from booking of orders to shipment of finished parts. Latest models of IBM order-handling equipment are in use, eliminating entirely several manual processing steps formerly necessary. This mechanized system not only increases the speed and accuracy of order recording, but also facilitates automatic inventory control, helps pinpoint production bottlenecks, furnishes more accurate and up-to-date cost-price information, and provides a rapid flow of data for sales research and analysis. A larger stock of replacement parts is also being carried in the South, adjacent to our largest markets. Completion of the Company's new plant in Easley, South Carolina, will make possible even more effective servicing of the repair parts market.

NON-TEXTILE BUSINESS

Work under existing contracts for machine guns and rifle components will be completed by next June. Judging from current procurement policies and directives of the Department of the Army, it does not appear likely that any continuing orders for the type of product the Company is now making will be available. We are endeavoring, however, to obtain contracts in newer armament fields, which currently appear to afford the best opportunity for utilizing Company facilities for defense work. Developmental effort on the new light-weight F-N Rifle, in which Saco-Lowell participated, has now been completed, but no decision on adoption of this weapon by the Armed Forces is anticipated for some months.

Despite the present lack of definite prospects for

REPORT ON OPERATIONS

further ordnance work, the Company remains in an advantageous position in this market. Our participation in the defense layaway program, our recognized know-how in ordnance manufacturing, and our familiarity with administrative aspects of government contracting would be of immediate value should a change in the world situation dictate new defense spending policies.

Over the past year experience with the automotive parts business encouraged the Company to extend its efforts to obtain further work of this kind. As a result, we are today doing business with the leading automobile manufacturers. A branch office has been opened in Detroit to service our customers and seek out new business.

The movement of practically all textile machinery building operations into new quarters in Saco and Easley will release space in Biddeford that is well adapted to many types of manufacturing. Availability of this space will facilitate diversification by increasing our capacity for handling non-textile business. At the same time, both Company and community will benefit from application to non-textile work of the high skills of the local labor supply.

PLANT OPERATIONS

Basic manufacturing realignments, started in 1954 and directed at improving the efficiency of operations in Maine, were continued in the past year. The most important of these consists of the movement of textile machinery manufacturing operations from the old plants in Biddeford to the new Edwards plant in Saco. A number of operations already have been shifted; other moves are scheduled to coincide with termination of ordnance contract work presently underway in the Edwards unit. By the end of 1956 a major part of Biddeford textile machinery manufacturing facilities will have been moved to Edwards and to the new plant in Easley, South Carolina.

The shift of operations involves more than the mere transporting of tools, material, and personnel to a new location. The movement of textile machinery operations into a completely modern manufacturing establishment provides the opportunity for improvements that have long been recognized as desirable but which were impossible within the limitations imposed by old-style multi-story factory buildings. Operations are being restudied, and important improvements are being incorporated in departmental structure.

Plans for the new plant in the South, announced in last year's annual report, have been finalized. During the year a careful study was made of various locations, and a 230-acre site was purchased at Easley. This location on the Southern Railway's main line to Atlanta, twelve miles southwest of Greenville, is from all viewpoints well adapted for our manufacturing purposes. It provides ample room for subsequent expansion, should this prove desirable, and is adjacent to major Company markets. The Southern Railway and the State of South Carolina have graciously consented to name the site Hale, commemorating Frank J. Hale, who for many years served as General Agent of this Company and was a conspicuous contributor to the growth of the Southern textile industry.

Decisions about the nature of the plant itself were made only after a complete review of marketing and product policies and a study of many alternate manufacturing combinations. The Easley plant will produce both complete textile machines and replacement parts. Designed by Lockwood Greene Engineers, Inc., it will consist of a completely air-conditioned, one-story structure of contemporary design. Overall area, including working spaces, offices, warehousing, and service facilities, will be in excess of 300,000 square feet. The construction contract was recently signed with the Daniel Construction Company of Greenville. Ground has been broken and the plant is scheduled for completion late in the summer. Meanwhile, 30,000 square feet of warehouse space has been rented in Easley for temporary offices and as a training area for local personnel the Company intends to employ in the new plant.

Movement of our textile machinery divisions out of the multi-story buildings in Biddeford promises many benefits. Important long-term cost savings will be realized. The best Biddeford plant facilities will be made available for non-textile work, which — unlike heavy textile machinery —

REPORT ON OPERATIONS

can be handled efficiently in these buildings. At the same time, factory space that has become obsolete for all purposes can be abandoned, with consequent reductions in overall maintenance and repair costs.

Operations during 1955 at our Sanford, North Carolina, plant were maintained at a stable level, primarily because of a good volume of orders for the Model 56 Comber. Largely through the initiative and efforts of the local management in obtaining non-textile work, employment and profits of this division have held steady through the past five years of depressed conditions in the textile business. In 1956 the Sanford Division will complete work on existing major ordnance contracts, but will continue to supplement its textile machinery business with orders for non-textile items.

RESEARCH AND DEVELOPMENT

In the past year several research projects matured. Basic developmental emphasis was on higher speeds, improved quality control, larger yarn packages, cleaner machine design, reduced manufacturing cost. In some cases, the end result was a completely new machine; in others, a small but vital adaptation of existing machine components. Long-range research was not neglected, but attention was centered on meeting specific market demands.

The Model 56 Comber, reference to which is made elsewhere in this report, represents still further advances in a field where Saco-Lowell has already made fundamental contributions. The new comber, incorporating several original features that reduce operating costs and improve the quality of output, perpetuates the leadership enjoyed by the Company in this field for the better part of two decades.

Tooling is currently underway for production of the Versa-matic High-Production Drawing Frame. An entirely new machine, Versa-matic produces quality sliver at a rate two to three times that of conventional drawing frames. The new frame is so designed that it can easily be adapted to process synthetic fibers as well as cotton, and at the same time handle different forms of supply and delivery packages to meet various mill needs.

The Positrol Slasher, released for production and sale in 1955, is the culmination of several years of intensive study. This machine, designed for sizing warp yarns, incorporates innovations that ensure better penetration of size and faster, more uniform drying of the yarn. The tendency of yarn to "shed" — or flake off its coat of size in the weaving process — is virtually eliminated by the air-drying process, which does away with coating cohesion and gives each yarn end an individual, cylindrical covering. The new slasher embodies a complete restudy of the sizing process and the utilization of modern chemical, mechanical, and electronic knowledge and techniques.

A high market potential exists for the new Duo-Roth Stay-Clean drafting element. This assembly offers advantages over existing elements in terms of quality production and operating efficiency. It has already won wide market acceptance, and a substantial backlog of orders now exists.

The Company has recently released a new modification of the Gwaltney Spinning Frame which promises, for some types of production, to do away entirely with the roving process. This so-called Can-Spin frame handles drawing sliver directly, without intermediate doubling, twisting, and winding on bobbins at the roving frame. Present application of Can-Spin is confined to coarser yarn counts, but the principle involved has considerable developmental possibilities.

Several other innovations warrant notice. The Adjusto-Ratch assembly for F-5 long-staple roving frames enables roll settings to be changed by a simple crank adjustment without stopping the frame. Such ease of adjustment is a major advantage in modern mills specializing in "high-style fabrics" involving wool, synthetics, or blends of the two. The basic roving frame design has also been modified to permit the building of 12″ x 7″ packages — a full 20 per cent larger than the conventional packages. The Positube Coiler, which overcomes difficulties caused by static electricity in winding sliver into cans, has recently been adapted for use on cards as well as at the drawing frame. Coiler assemblies have been introduced in extra-large sizes. In addition, numerous minor improvements have been made in sub-assemblies for various machines.

REPORT ON OPERATIONS

Heavy emphasis continues to be placed on the Research and Development program. During the year progress has been made in several long-range development projects being carried on by the Company, all of which continue to give promise, and some of which may be completed and offered to the trade in the year ahead.

LABOR RELATIONS

In September, 1955, Saco-Lowell signed a new two-year contract with the Textile Workers Union of America (CIO), with respect to the Biddeford and Edwards plants, replacing the five-year agreement that expired at that time. Successful conclusion of negotiations was reported in the *Biddeford Daily Journal* (September 13, 1955) in these words:

> **CONGRATULATIONS DUE AGAIN**
>
> Assurances that an accord reached through negotiations without any labor trouble to continue operations of another of our larger industries brought much relief locally. Many expressed the opinion that congratulations should be extended to both management and labor, and to the representatives of both who were successful in negotiating the new contract to the mutual satisfaction of all concerned.
>
> Ratification of the contract terms are considered a guarantee of peace in another industry for at least the two-year term of the contract, and both sides have shown that the same success is possible whenever another contract becomes necessary. There has been good feeling apparent all the way, which we can all hope will continue to mark labor and management relations here.

Under the new contract basic wage levels continue as they were. The pension plan, instituted in 1953, is continued, and fringe benefits have, in a number of instances, been liberalized. The contract provides for an annual wage reopening.

In 1955 the Company continued in all plants the excellent safety record that has earned for Saco-Lowell National Safety Council commendations and highest nation-wide ratings for accident prevention. An unusual opportunity was provided this past year for testing the effectiveness of Company safety and medical programs by means of an impartial investigation. The Liberty Mutual Insurance Company was granted permission to send a group of experts to study Saco-Lowell practices and employee attitudes toward the medical-safety program. The survey revealed that since 1948 the Company's accident frequency rate has declined 56 per cent, absenteeism is down 50 per cent, and compensation payments per $100 of payroll have dropped 79 per cent. Other findings indicated that both management and plant personnel are solidly behind the program. Community sentiment also was highly favorable. Local doctors noted that the Company's plant medical program encouraged preventive medicine and early diagnosis without encroaching on private medical practice. At the same time, continued emphasis on safety in the plants apparently has been reflected in homes and on the highway.

FINANCE

The Company's financial position remained strong throughout 1955. Significant shifts in funds took place, reflecting both the pick-up in orders after mid-year and business growth in 1956. Government securities of approximately $3,000,000 were converted into cash, receivables, and inventory, which together increased about $4,500,000. Total net current assets were virtually unchanged from a year ago, as was the Company's current ratio.

Against this present liquidity must be measured the working capital demands the Company faces in 1956. Intense competition necessitates longer financing of orders. Current efforts to reduce manufacturing costs through adoption of production in economic lots also has somewhat increased working capital requirements. The rehousing of textile machinery operations in the Edwards and Easley plants will cost $6,500,000, of which about $5,000,000 will be for capital items. These very heavy outlays will, to a large extent, be financed out of Company resources. The ability to initiate and carry forward a program of such competitive importance and promising such substantial gains to the stockholders is a direct result of the Company's policy in preserving a strong and liquid financial position.

In the past year the U. S. Internal Revenue Service cleared, with only minor adjustments, tax returns for the fiscal years 1951, 1952, and 1953.

COMPARATIVE STATISTICS

	1955	1954	1953	1952
OPERATIONS				
Income Before Federal Taxes On Income	$ 2,746,768	$ 2,481,994	$ 3,474,312	$ 107,974
Federal Taxes On Income	1,371,000	‡ 1,150,000	‡ 2,100,000	50,000
Net Income	1,375,768	1,331,994	1,374,312	57,974
* Per share of common stock	2.54	2.39	2.29	.10
Cash Dividends On Common Stock	684,700	720,588	600,000	600,000
Per share of common stock	1.25	1.25	1.00	1.00
Earnings Retained For Use In Business	691,068	611,406	774,312	§ 542,026
FINANCIAL CONDITION				
Total Assets	$31,801,076	$30,706,720	$33,585,182	$30,996,246
Long-Term Debt	1,734,000	1,867,000	2,000,000	2,000,000
Current Assets	19,254,681	18,018,881	24,009,651	20,938,515
Total Liabilities	6,424,657	5,692,135	8,334,359	6,769,735
Current Liabilities	4,690,657	3,825,135	6,334,359	4,769,735
Net Worth (based upon book values)	25,376,419	25,014,585	25,250,823	24,226,511
Working Capital	14,564,024	14,193,746	17,675,292	16,168,780
Wages And Salaries	$15,517,761	$14,091,255	$17,395,596	$15,413,010
Number Of Shareholders At End Of Year	3,965	4,331	4,740	4,812

* Based upon 541,850 shares outstanding at end of 1955, 556,400 shares outstanding at end of 1954, and on 600,000 shares for all other years.

‡ Includes provision for defense plant standby and reconversion costs of $100,000 in 1954 and $250,000 in 1953.

§ Denotes red figure.

SACO-LOWELL SHOPS
and subsidiary

1951	1950	1949	1948	1947	1946
$ 6,420,167	$ 5,008,523	$ 8,496,351	$ 8,000,559	$ 6,335,664	$ 1,227,485
3,200,000	2,100,000	3,300,000	3,300,000	2,500,000	450,000
3,220,167	2,908,523	5,196,351	4,700,559	3,835,664	777,485
5.36	4.84	8.66	7.83	6.39	1.29
1,200,000	1,350,000	1,050,000	1,000,000	1,000,000	437,500
2.00	2.25	1.75	1.66	1.66	.72
2,020,167	1,558,523	4,146,351	3,700,559	2,835,664	339,985
$32,848,394	$30,367,274	$29,125,180	$31,129,928	$22,811,442	$16,698,669
			1,350,000		1,500,000
22,201,820	22,792,534	21,976,389	23,434,724	16,782,756	11,635,259
8,079,857	7,618,904	7,935,333	14,086,433	9,468,506	6,191,397
8,079,857	7,618,904	7,935,333	12,736,433	9,468,506	4,691,397
24,768,537	22,748,370	21,189,847	17,043,495	13,342,936	10,507,272
14,121,963	15,173,630	14,041,056	10,698,291	7,314,250	6,943,862
$17,193,328	$14,382,992	$15,400,796	$19,119,306	$13,847,451	$10,151,296
4,338	3,234	2,919	2,784	2,647	2,692

CONSOLIDATED BALANCE SHEET

AS OF NOVEMBER 27, 1955 AND NOVEMBER 28, 1954

ASSETS	November 27, 1955	November 28, 1954
Current Assets:		
Cash	$ 1,887,829	$ 1,467,382
United States Government securities (at cost)	623,684	3,740,991
Receivables (less reserves)	5,446,395	3,275,050
Inventories (not in excess of the lower of cost or market value)	11,296,773	9,535,458
Total current assets	$19,254,681	$18,018,881
Miscellaneous Assets:		
Deposits with factory mutual fire insurance companies	$ 221,271	$ 221,468
Textile receivables not currently due	115,960	153,738
Sundry receivables and advances	51,208	55,068
Miscellaneous securities (less reserve)	12,501	12,501
Total miscellaneous assets	$ 400,940	$ 442,775
New Plant Building Fund (United States Government securities — at cost) (Note 7)	$ 3,364,678	$ 3,500,000
Real Estate, Machinery, Equipment, Etc. (at depreciated ledger values) (Notes 1 and 2)	$ 8,683,396	$ 8,713,580
Prepaid Expenses and Deferred Charges	$ 97,381	$ 31,484
Total Assets	$31,801,076	$30,706,720

NOTES

1. In 1952 the Company was granted a Certificate of Necessity covering the Edwards Plant in Saco, Maine, which permitted the amortization for tax purposes of 40% of the cost of the building over a five-year period ending November 30, 1956. Operations have been charged with the amortization applicable to the current year.
2. During the year the Company adopted the practice of computing depreciation on an accelerated rate method instead of the straight-line method on property additions acquired since January 1, 1954 as permitted under the Internal Revenue Code of 1954. The effect of this change on income for the years 1955 and 1954 was not material.
3. In addition to the fixed annual amounts payable on a note issued to an insurance company, the loan agreement provides for annual provisional payments beginning March 1955, based upon net income of the preceding year. Earnings for the years ended November 27, 1955 and November 28, 1954 were not sufficient to require provisional payments. Under the loan agreement, the Company must maintain its current assets in excess of current liabilities in an amount of at least $7,000,000.
4. Of the 35,000 shares reserved under the Company's Restricted Stock Option Plan, options to purchase 14,850 shares at $14.00 a share were granted to sixteen officers and employees in June 1953, exercisable under certain conditions during the period from June 8, 1955 to June 7, 1960. An option to purchase 1,050 shares was cancelled

SACO-LOWELL SHOPS
and subsidiary

LIABILITIES, RESERVES AND CAPITAL	November 27, 1955	November 28, 1954
Current Liabilities:		
Accounts payable	$ 1,304,743	$ 1,222,491
Dividend payable	271,475	278,200
Customers' advance payments on sales contracts	381,686	306,734
Current instalments on long-term debt	133,000	133,000
Accrued liabilities:		
Federal income taxes and renegotiation (less, in each year, $1,000,000 United States Government securities)	1,122,713	371,477
Social security, state, and local taxes	211,683	183,700
Payrolls and vacation pay	586,722	544,014
Agents' commissions	182,575	177,388
Other accruals	496,060	608,131
Total current liabilities	$ 4,690,657	$ 3,825,135
Long-Term Debt — 15-year 3½% note payable; instalments of $133,000 due in 1955 and annually thereafter, with provisional payments (Note 3) (excludes current instalments shown above)	$ 1,734,000	$ 1,867,000
Reserves:		
For defense plant standby and reconversion costs	$ 146,535	$ 155,456
Amounts appropriated for excess of replacement cost over original cost of plant property	1,750,000	1,750,000
For contingencies	1,000,000	1,000,000
Total reserves	$ 2,896,535	$ 2,905,456
Capital Invested In Business:		
Common stock — $2.50 par value (authorized, 1,200,000 shares, of which 35,000 shares are reserved for stock options — Note 4; issued, 600,000 shares)	$ 1,500,000	$ 1,500,000
Capital surplus:		
Paid in by stockholders (Note 4)	5,735,876	5,736,638
Earnings capitalized in connection with stock dividend in 1948	1,750,000	1,750,000
Earned surplus	14,566,659	13,875,591
Total	$23,552,535	$22,862,229
Less treasury stock (1955, 58,150 shares; 1954, 43,600 shares — at cost)	1,072,651	753,100
Capital invested in business	$22,479,884	$22,109,129
Total Liabilities, Reserves and Capital	$31,801,076	$30,706,720

NOTES

on June 15, 1955. The price of $14.00 was slightly in excess of the market value of the stock at the date the options were granted. During the period from June 8, 1955 to November 27, 1955 options for 4,000 shares were exercised. Such shares were sold from treasury stock and the difference between the option price and the cost of the stock to the Company, $762, has been charged against capital surplus.

5. Certain sales during 1955 under United States Government contracts are subject to price renegotiation. While renegotiation proceedings have not been commenced, management is of the opinion that appropriate provision has been made in the accounts to cover any refunds which might be required. Renegotiation proceedings for prior years have been finalized without refunds to the Government.

6. At November 27, 1955 the Company was contingently liable in the amount of $303,948 to banks on drafts payable by foreign customers in the event of their default and the default of foreign banks which guaranteed payments of the drafts.

7. For information relative to the Company's plans for new plant construction, reference is made to the President's letter on page 4.

SACO-LOWELL SHOPS and subsidiary

SUMMARY OF CONSOLIDATED INCOME

	Fiscal Years Ended November 27, 1955	November 28, 1954
Net Sales	$34,261,872	$30,937,369
Operating Costs And Expenses	$30,539,765	$27,596,046
Provision For Depreciation And Amortization (Notes 1 and 2)	1,038,100	951,632
Total	$31,577,865	$28,547,678
Operating Profit	$ 2,684,007	$ 2,389,691
Add:		
Interest earned	117,645	130,727
Miscellaneous income credits — net	13,603	33,758
Total	$ 2,815,255	$ 2,554,176
Deduct — Interest expense	68,487	72,182
Income Before Federal Tax On Income And Plant Standby And Reconversion Costs	$ 2,746,768	$ 2,481,994
Deduct:		
Provision for Federal tax on income	$ 1,371,000	$ 1,050,000
Provision for defense plant standby and reconversion costs		100,000
Total	$ 1,371,000	$ 1,150,000
Net Income For The Year	$ 1,375,768	$ 1,331,994

SUMMARY OF CONSOLIDATED EARNED SURPLUS

	Fiscal Years Ended November 27, 1955	November 28, 1954
Earned Surplus At Beginning Of Year	$13,875,591	$13,264,185
Add — Net income for the year	1,375,768	1,331,994
Total	$15,251,359	$14,596,179
Deduct — Cash dividends ($1.25 a share)	684,700	720,588
Earned Surplus At End Of Year	$14,566,659	$13,875,591

The notes on the accompanying balance sheet are an integral part of these summaries.

ACCOUNTANTS' CERTIFICATE

SACO-LOWELL SHOPS:

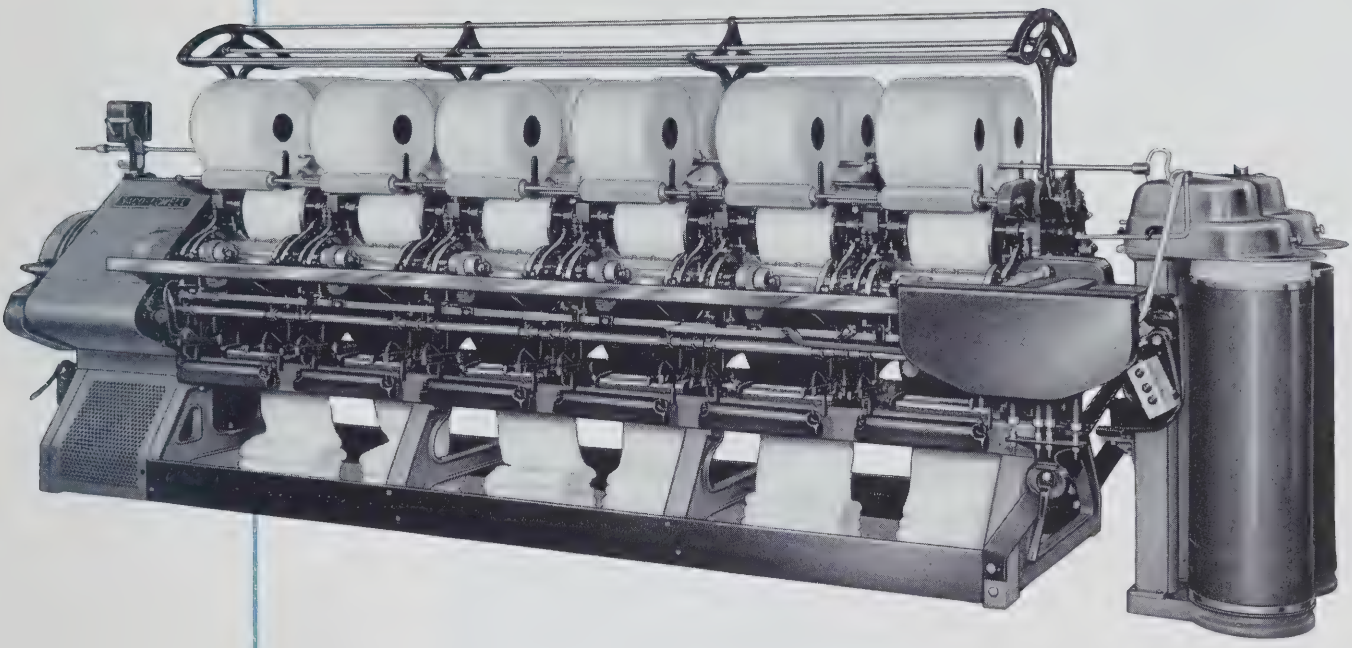
We have examined the consolidated balance sheet of Saco-Lowell Shops and its subsidiary as of November 27, 1955 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated income and earned surplus present fairly the financial position of the companies at November 27, 1955 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change explained in Note 2 to the financial statements) on a basis consistent with that of the preceding year.

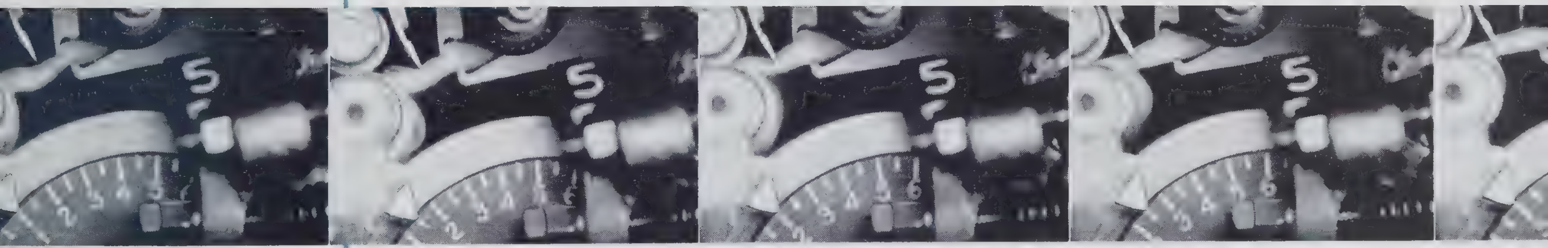
HASKINS & SELLS

Boston, January 12, 1956.

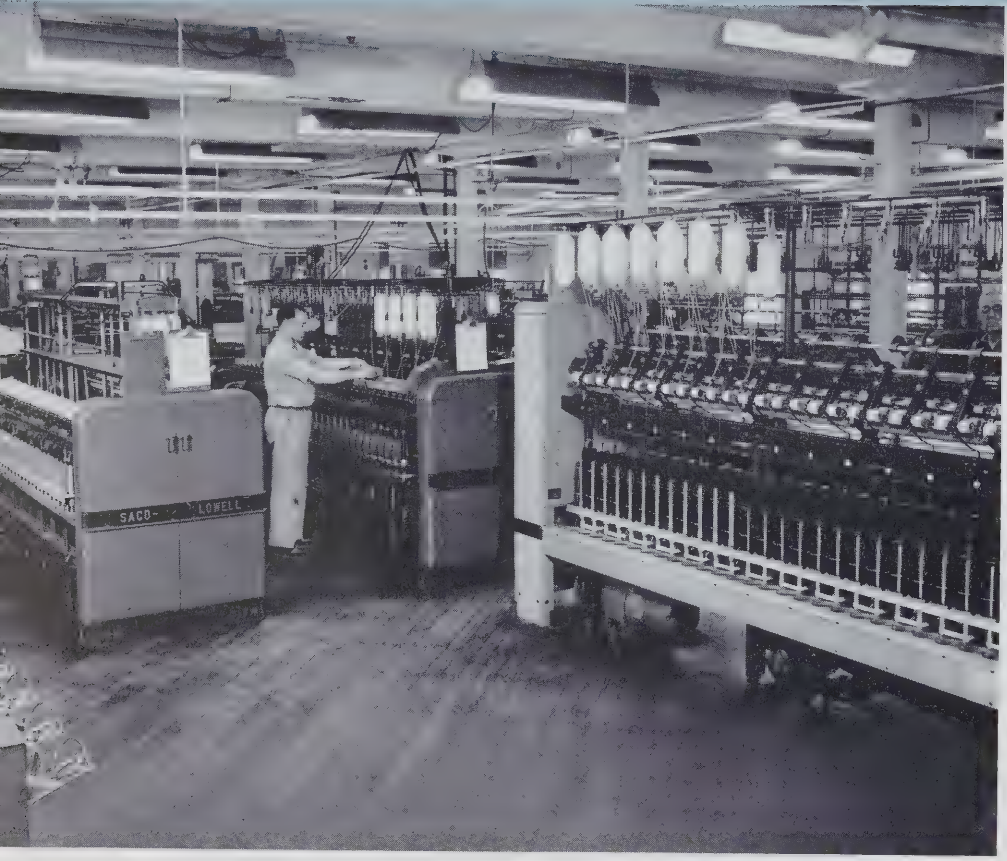
PICTORIAL REVIEW 1955



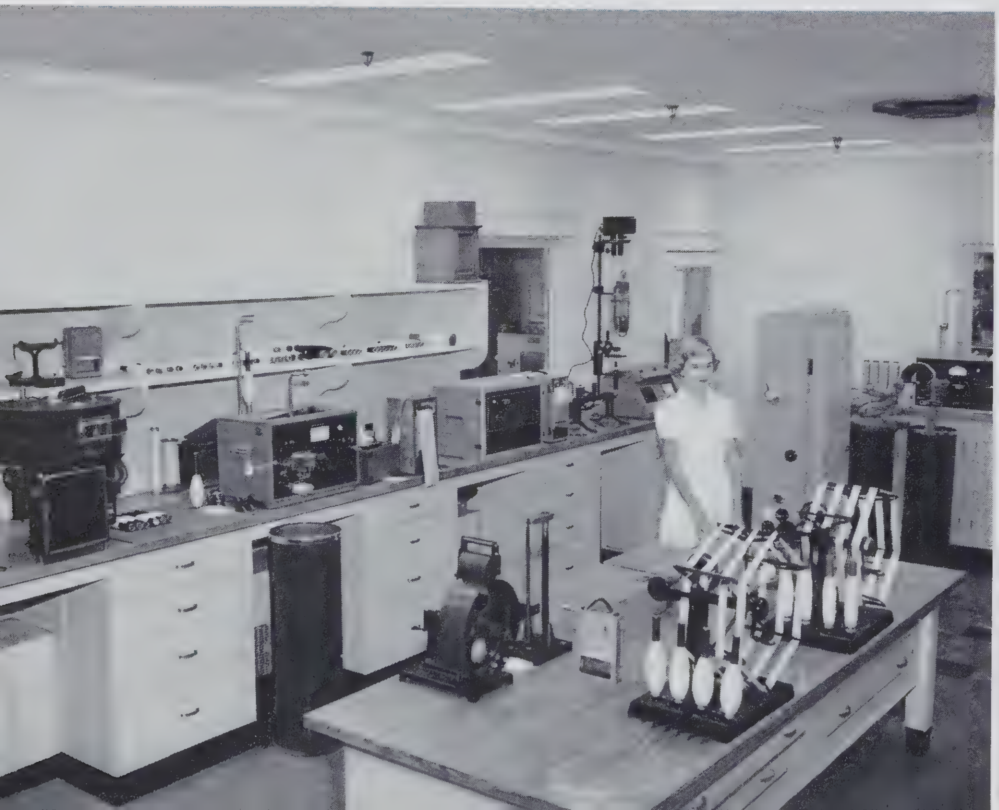
Machines such as Saco-Lowell's High-Production Comber (above) represent the blending of latest scientific techniques, exemplified by the high-speed microphotos of combing action (below) and the practical knowledge acquired by generations of machinery-building experience. This blending of science and practice yields maximum results only when guided by appreciation of market needs and accompanied by aggressive merchandising and effective marshalling of productive facilities.



PICTORIAL REVIEW

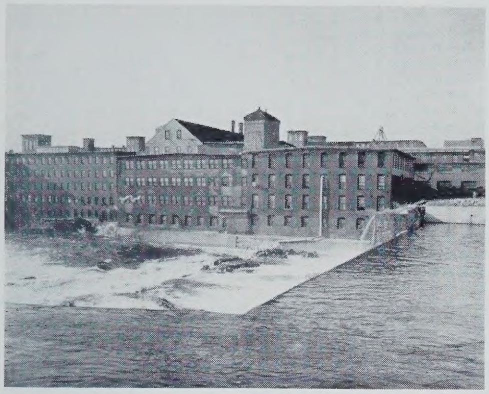


Experimental installations of machinery in Saco-Lowell's research laboratories approximate actual mill operating conditions. Opportunities are provided here for carefully controlled tests that ensure the adaptability of Saco-Lowell machines to specific market needs.



In the physical testing laboratory thousands of dollars' worth of scientific equipment provide highly revealing insight into the characteristics and behavior of materials in process. A decade ago most of these analytical techniques and devices were unknown.

PICTORIAL REVIEW 1955



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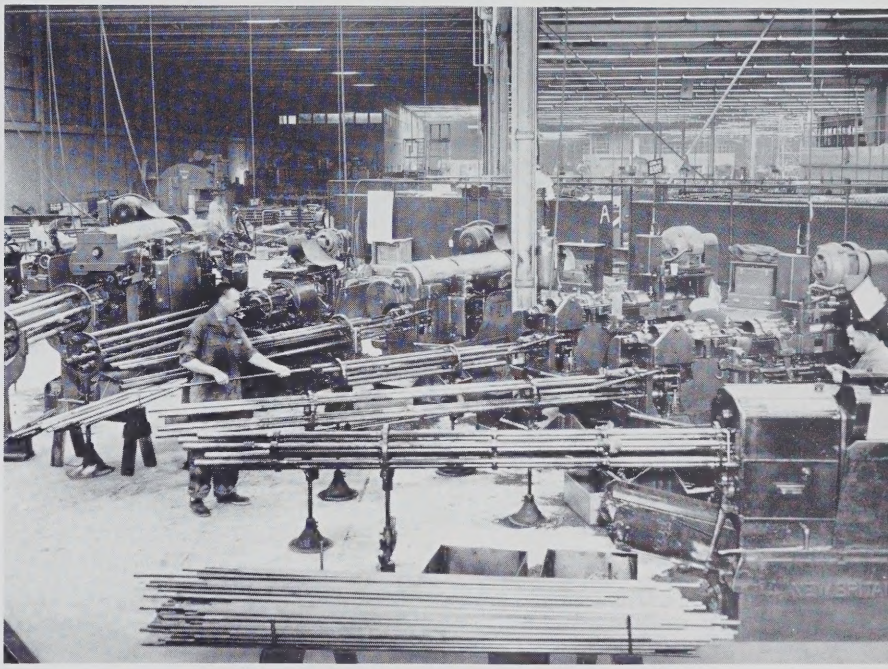
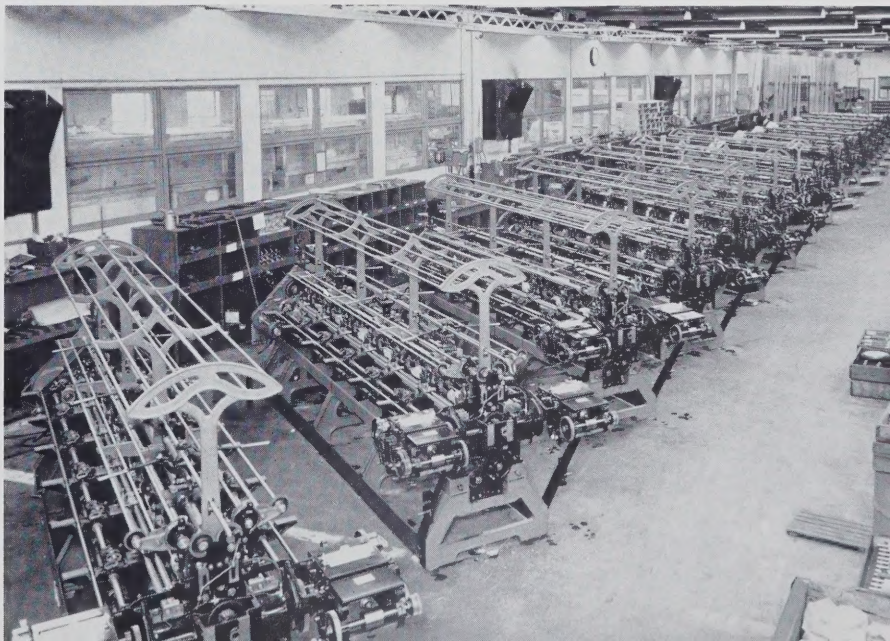
SACO-LOWELL SHOPS

1955



The translation of experimental findings into marketable products involves highly refined and constantly improving manufacturing skills. In the past decade Saco-Lowell has made noteworthy progress in plant modernization. The textile machines of today bear little resemblance to those of a generation ago, and facilities that were once adequate for producing those machines are rapidly being superseded. The comber erection floor at Sanford (lower right) and the installation of automatic lathes for manufacturing textile machinery at the Edwards plant in Saco (center right) show modern shop practice at its best. In today's market the ideal plant is not a dream, but a competitive necessity.



MERCHANDISING A COMPANY

The results of research and manufacturing skill are translated into sales dollars and profits by maintenance of satisfactory relationships between a company and its customers, employees, and community. These relationships are vitally dependent upon a steady stream of effective communications. Saco-Lowell has long been recognized for the quality of its publications, some few of which are pictured here. The *Saco-Lowell Bulletin,* published since 1928 by the Advertising Department in the interests of better mill operations, is acknowledged throughout the industry as an authoritative source of information on new developments in textile processing. The Company's machinery and repair parts catalogs also are considered among the best in the metal trades. The *Saco-Lowell News,* published for and largely by Company personnel, is an effective link between Company and community. Other publications, some of which are produced in Saco-Lowell's own Graphic Arts Department, explain Company policy and benefit plans to plant personnel.

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